ECONOMIC UPDATE: REVIEW OF MONETARY POLICY REPORT

Monetary Policy Rate (MPR) increased by 100bsp to 14.5% from 13.5%. **22/11/2021**

Introduction

On Monday 22nd November 2021, the Monetary Policy Committee (MPC) of the Bank of Ghana concluded its 103rd regular meeting. The Committee decided to increase the policy rate by 100bsp to 14.5% from 13.5% citing the following reasons:

- ✓ Inflationary pressures are becoming embedded in most advanced and emerging market economies with potential implications for the current supportive financing conditions driving the recovery.
- ✓ Increased concerns about the strength of the recovery and the stronger US dollar has exerted currency pressures in some emerging market and frontier economies. Consequently, policy rates in some emerging market countries have been hiked to counter rising inflation.
- ✓ The risk to the near-term global outlook is tilted to the downside in the wake of the resurgence in Covid-19 transmission rates in some advanced countries and pre-mature monetary policy normalization due to persistent price pressures.
- ✓ In the domestic economy, the Committee assessed that the recovery in the real sector was progressing at a steady pace. High frequency economic indicators reflect increased momentum in the pace of economic activity, close to pre-pandemic levels.
- ✓ Consumer and business sentiments have turned around, driven by perceived improvements in economic prospects, although consumers expressed concerns about current household finances.
- ✓ Credit to the private sector is beginning to expand, albeit at a slow pace. The recovery in credit is expected to continue on the back of anticipated net ease in credit stance by banks and increased demand.
- ✓ The country's sovereign bond spreads widened markedly over the period as investor sentiments shifted based on fiscal and debt sustainability concerns, prompting some sell-offs by investors with spillovers on the domestic foreign exchange market. This triggered some currency pressures in the past two months as demand for the U.S. dollar increased.
- ✓ However, the adequate reserve levels provided some buffers and supported a much slower depreciation pace compared with pre-pandemic levels. In the outlook, the Committee is of the view that the strong reserve buffer level should provide some assurance to the market and help abate investor concerns, as the country's external payment position remains strong.
- ✓ Headline inflation has risen consistently from the low of 7.5 percent in May 2021 to 11.0 percent in October driven by both food and non-food price increases. In addition, all the BoG's core measures of inflation have increased, indicating broad-based underlying inflation pressures, with the potential of de-anchoring inflation expectations.
- ✓ Currently, headline inflation is above the upper limit of the medium-term target band and the Committee noted significant risks to the inflation outlook. These risks include rising global inflation, high energy prices, uncertainties surrounding food prices and investor behaviour.
- ✓ The Committee further noted that these elevated inflationary risks, require prompt policy action to re-anchor inflation expectations to safeguard the central bank's price stability objective and hence decided to increase the policy rate to **14.5%.**

1. Global Developments

- ✓ The growth recovery in the global economy has persisted notwithstanding the softened momentum observed in the third quarter of 2021, which is largely attributed to supply chain bottlenecks and concerns about renewed COVID-19 outbreaks.

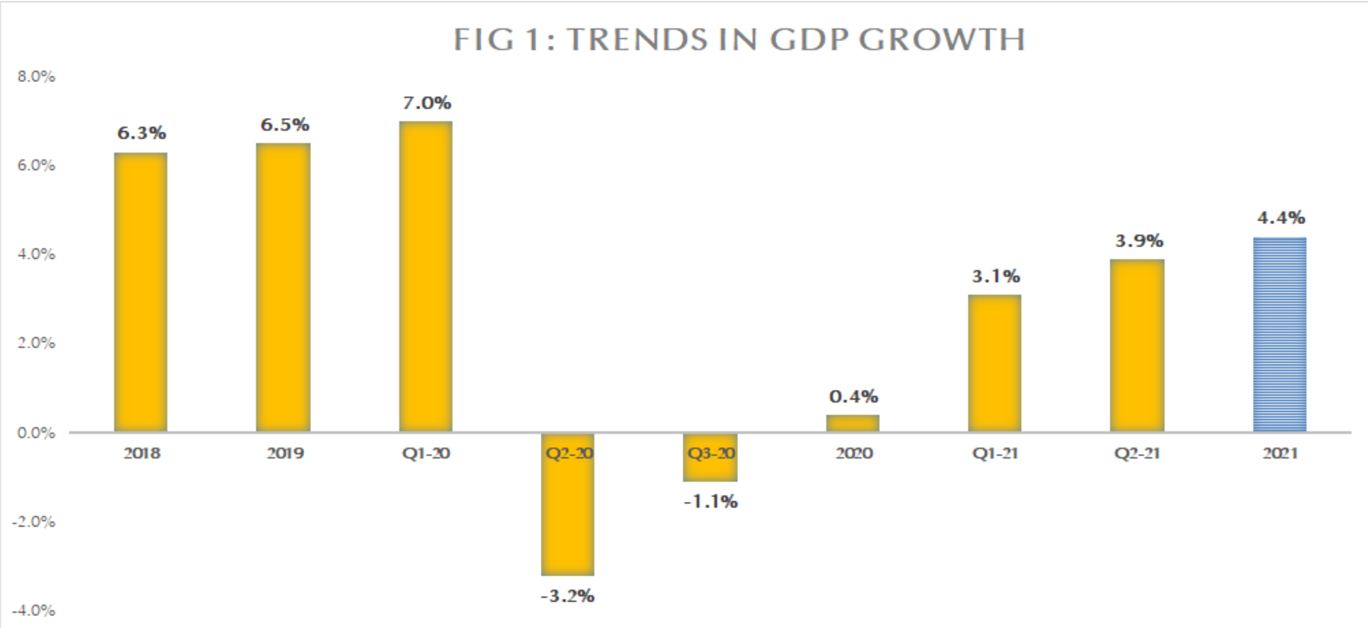
- ✓ The International Monetary Fund, has subsequently in October, marginally lowered its earlier 2021 global growth forecast from **6.0 percent to 5.9 percent.** This forecast is however, conditioned on the evolution of the COVID-19 pandemic and new waves of infection especially in Europe, progress with the global vaccination drive, and supportive financing conditions.
- ✓ Global price pressures, on the other hand, have intensified with headline inflation rising above targets in several advanced and emerging market economies. The rise in inflation broadly reflects rising energy prices, resurgence in global demand, and supply chain constraints.
- ✓ Although the rise in inflation was deemed transitory in the first half of 2021, it is becoming embedded, raising policy uncertainties in the outlook. The Federal Reserve Bank has started tapering its asset purchase programmes to contain the inflation threat.
- ✓ In Emerging Market and Developing Economies (EMDEs), increased commodity and food prices, supply bottlenecks and pass-through to exchange rate depreciation resulted in rising inflation. While some EMDEs have raised their policy rates to contain inflationary pressures, others have adopted a wait-and-see attitude to further observe the price dynamics.
- ✓ In the financial markets, long-term bond yields have increased amid growing concerns about the above-target inflation trends across several advanced economies.
- ✓ In EMDEs, financing conditions have tightened to some extent, reflecting the rise in policy rates to contain rising inflation, rising long-term bond yields in Advanced Economies (AEs), strengthening of the US dollar, and widening sovereign spreads in some vulnerable frontier economies. Additionally, capital flows to emerging market and developing economies have become volatile due to concerns about the strength of the global recovery and rising inflationary pressures.
- ✓ The above developments — the recovery in global growth conditions, rising global inflation trends, and volatility in capital flows — are likely to have spillover effects on the Ghanaian economy, mainly through their potential impacts on **trade, portfolio flows, external financing, and exchange rate movements.**

Looking ahead, the global economy is projected to grow at 5.9 percent in 2021 and 4.9 percent in 2022 (0.1 percentage point lower for 2021 than in the July 2021 World Economic Outlook (WEO) Update) according to the IMF. The downward revision for 2021 reflects a downgrade for advanced economies—in part due to supply disruptions—and for low-income developing countries, largely due to worsening pandemic dynamics. This is partially offset by stronger near-term prospects among some commodity-exporting emerging market and developing economies. Beyond 2022 global growth is projected to moderate to about 3.3 percent over the medium term. The sharp rebound, with global GDP returning to its pre-coronavirus level in late 2021, masks great variations in the pace of recovery across regions. A prolonged rise in inflation (despite rising commodity prices and supply-chain disruptions) represents the main risk to the global recovery. Exacerbating this risk is the recent rise in global energy prices, which will remain elevated at least throughout the northern hemisphere winter (2021/22). Major central banks are poised to start tightening monetary policy in 2022 to curb inflation, but will do so slowly lest they derail the economic recovery. Governments' unprecedented fiscal responses to the Covid-19 pandemic have led to a sharp increase in public debt in developed and developing economies. Debt servicing remains modest in advanced economies, suggesting that the debt outlook is sustainable, as long as interest-rate rises remain modest. Developing economies are more at risk from modest increases in global bond yields, which could ultimately lead to a dangerous surge in debt-servicing costs. Rapid spread of Delta and the threat of new variants have increased uncertainty about how quickly the pandemic can be overcome. Most developed economies will achieve widespread vaccination coverage in 2021 or early 2022, preventing the reimposition of sweeping lockdowns. However, production, financial and logistical constraints mean that global immunisation timelines will stretch beyond 2023 in most developing countries. Overall, the risk to the near-term global outlook is tilted to the downside in the wake of the resurgence in Covid-19 transmission rates in some advanced countries and pre-mature monetary policy normalization due to persistent price pressures.

2. Domestic Economy

Real Sector Developments

- ✓ Economic activity during the third quarter continues to point to sustained recovery from the pandemic. The BoG's updated Composite Index of Economic Activity (CIEA) recorded an annual growth of 11.2 percent in September 2021, compared with 10.8 percent and 4.2 percent in the corresponding periods of 2020 and 2019, respectively.
- ✓ The stronger growth in the CIEA was driven by domestic VAT, industrial consumption of electricity, port activity, imports, and air-passenger arrivals. Construction activities, however, slowed down somewhat.
- ✓ The results of the latest confidence surveys signalled continued improvement in both business and consumer sentiments. Consumer confidence improved on account of positive economic prospects.
- ✓ Businesses met short-term company targets and were optimistic about company and industry prospects as the yuletide approaches, despite concerns about high cost of raw materials and exchange rate depreciation.



Source: Ghana Statistical Service, GCB Research

For the outlook of the domestic economy, the Committee assessed that the recovery in the real sector was progressing at a steady pace. High frequency economic indicators reflect increased momentum in the pace of economic activity, close to pre-pandemic levels. Consumer and business sentiments have turned around, driven by perceived improvements in economic prospects, although consumers expressed concerns about current household finances. Credit to the private sector is beginning to expand, albeit at a slow pace. The COVID-19 related macro-prudential measures, still in force, remain supportive of the recovery process, steadily driving up new advances over the period. The recovery in credit is expected to continue on the back of anticipated net ease in credit stance by banks and increased demand.

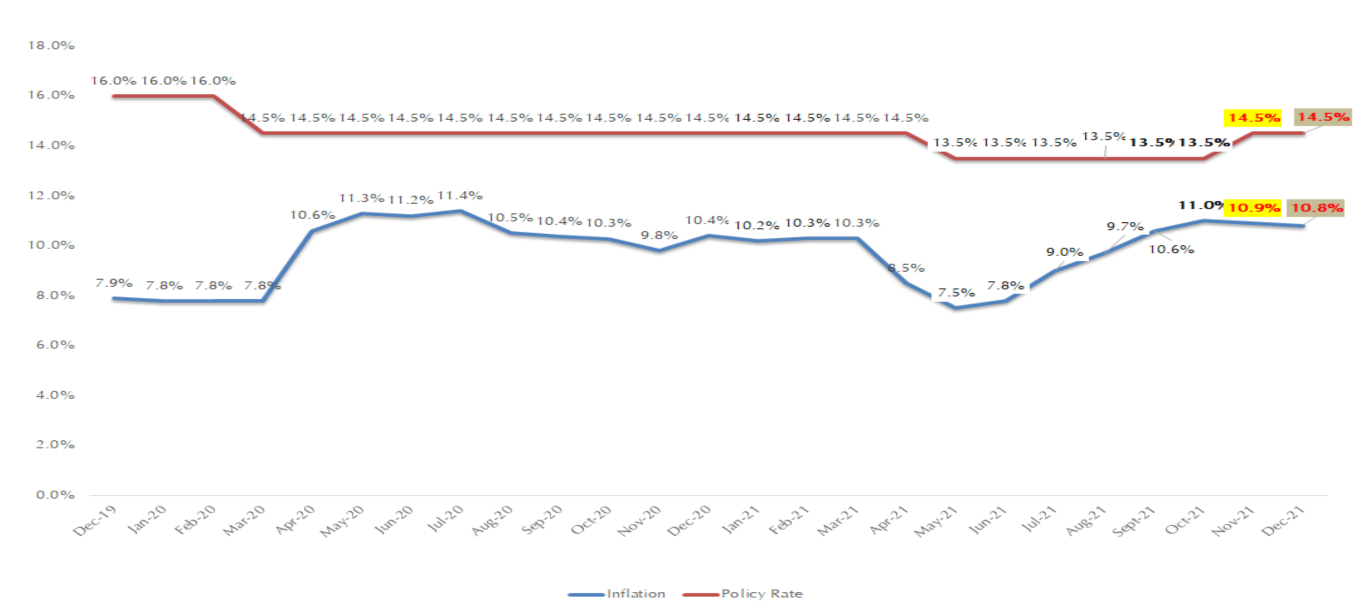
From our point of view, we estimate that real GDP will grow by 4.4% in 2021, given the strengthening global and domestic conditions; such growth will have been fairly broad-based across the main sectors. Real GDP growth will rise to 4.8% in 2022, and oil output volumes will tick up slightly in that year as prices soar. Gold production is expected to remain elevated in 2022 owing to high global demand (despite marginally lower global gold prices compared to 2021 levels) and government efforts to curtail illegal mining, which will boost formal sector activity. Services will remain steady in 2022 as most strict containment measures are lifted, although some restrictions will remain. The agricultural sector will register growth, benefiting from government investment to improve cocoa yields and moves towards self-sufficiency for staples such as rice.

3. Price Developments

Inflation

- ✓ Recent price developments show elevated pressures on headline inflation in the second half of 2021. The two readings since the last MPC meeting pointed to a sharp increase in headline inflation from 9.7 percent in August 2021 to 10.6 percent in September and further up to 11.0 percent in October. This indicates that currently inflation is out of the medium-term target band of 8±2 percent by 1 percent.
- ✓ The rise in inflation for October 2021 was largely driven by non-food prices, which increased from 9.9 percent in September to 11.0 percent in October 2021, while food inflation dipped from 11.5 percent in September to 11.0 percent in October 2021.
- ✓ Similar to the trends in headline inflation, underlying inflation pressures are also increasing. All the BoG's core measures of inflation increased over the period.
- ✓ The main core inflation measure, which excludes energy and utility, increased from 9.5 percent in August 2021 to 10.0 percent in September and further up to 10.4 percent in October 2021.
- ✓ In addition, the weighted inflation expectations index, which captures inflation sentiments of consumers, businesses and the financial sector, also picked up significantly in October 2021.

FIG 2: TRENDS IN INFLATION AND POLICY RATE



Source: Bank of Ghana, GCB Research

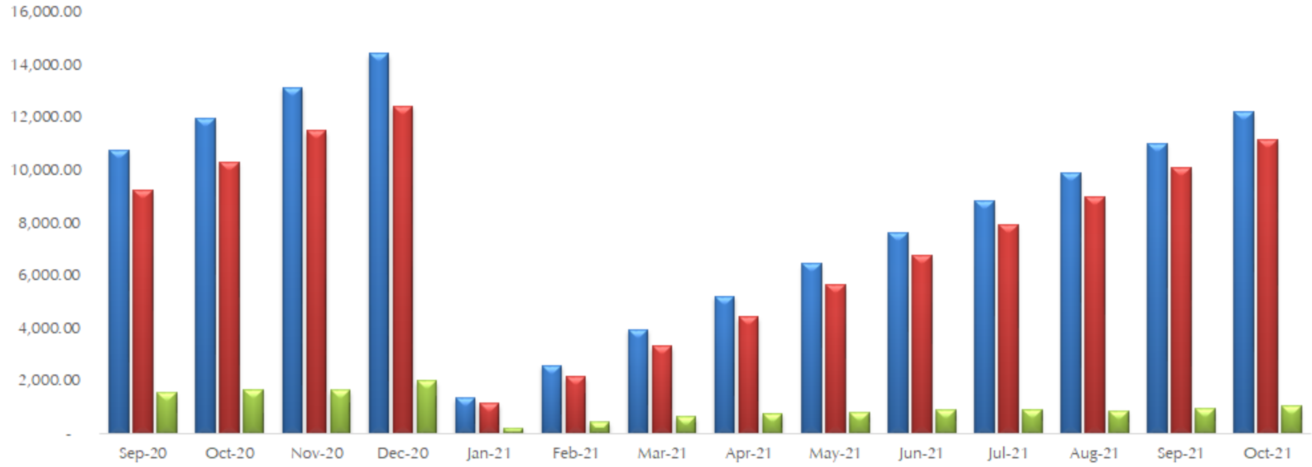
According to the Committee, all the BoG's core measures of inflation have increased, indicating broad-based underlying inflation pressures, with the potential of de-anchoring inflation expectations. Currently, headline inflation is above the upper limit of the medium-term target band and the Committee noted significant risks to the inflation outlook. These risks include rising global inflation, high energy prices, uncertainties surrounding food prices and investor behaviour. The Committee further noted that these elevated inflationary risks, require prompt policy action to re-anchor inflation expectations to safeguard the central bank's price stability objective.

From our view point, we expect headline inflation rate to remain at current levels over the remainder of 2021, driven by supply-side price pressures (including rising global oil prices and high domestic food and utility costs). We estimate inflation of 10.8%±2% for the year. In 2022 inflation will still be elevated (to an average of 10.2%) as prices for global commodities—especially oil—continue to rise, elevated global inflation, domestic demand starts to pick up further and the local currency depreciates. For the month of November 2021, we forecast inflation of 10.9±2%.

4. External Sector Developments

- ✓ International commodity prices reflected mixed trends in the year to October 2021. Crude oil prices rose sharply driven by the interplay of increased global demand as economies reopened and supply shortfalls. On a year-to-date basis, the average price of crude oil went up by 65.9 percent to US$83.3 per barrel in October 2021.
- ✓ The average price of cocoa also increased marginally by 2.0 percent to trade at US$2,632.4 per tonne due to projected shortfalls for the 2021/22 season.
- ✓ Gold prices however declined by 4.4 percent to average US$1,775.7 per fine ounce in October 2021, due to pressures from the strong US dollar.
- ✓ External sector developments in the first nine months of 2021 showed that lower trade surplus and higher investment income outflows continued to weigh down on the current account balance.
- ✓ Total merchandise exports amounted to US$11.0 billion, compared with US$10.8 billion in the third quarter of 2020. Export receipts of cocoa beans and products and crude oil went up by 31.1 percent and 26.5 percent, respectively, while gold exports declined by 23.4 percent on account of lower production.
- ✓ Total merchandise imports amounted to US$10.1 billion compared with US$9.2 billion a year earlier. Of this, non-oil imports accounted for US$8.2 billion compared with US$7.9 billion, over the same review period. Oil and gas imports amounted to US$1.9 billion, relative to US$1.3 billion, reflecting a rebound in economic activity from the pandemic-related effects in 2020.
- ✓ Based on these developments, the trade account recorded a lower surplus of US$938 million compared with US$1.6 billion surplus recorded in the third quarter of 2020.
- ✓ The lower trade surplus, together with the higher investment income outflows arising from increased interest payments, profits and dividend repatriation, resulted in a widened current account deficit of US$1.9 billion in the third quarter of 2021, compared with US$1.2 billion same time last year.
- ✓ Private individual transfers, however, remained firm and stable with net inflows amounting to **US$2.6 billion** during the period.
- ✓ The capital and financial account recorded a surplus of US$3.7 billion, stemming mainly from higher foreign direct investments, portfolio flows, and the IMF SDR allocation.
- ✓ These flows were more than sufficient to finance the current account deficit resulting in an overall balance of payments surplus of US$1.7 billion compared with a deficit of US$334 million, same period last year.
- ✓ At the end of October 2021, Gross International Reserves stood at **US$10.8 billion, equivalent to 4.9 months of import cover.** This compares with the reserve level of US$8.6 billion, representing 4.0 months of import cover at the end of December 2020.

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



	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Export	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	9,895.70	11,034.40	12,210.40
Import	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	9,022.20	10,096.20	11,174.40
Trade Balance	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	873.50	938.20	1,036.00

Source: Bank of Ghana

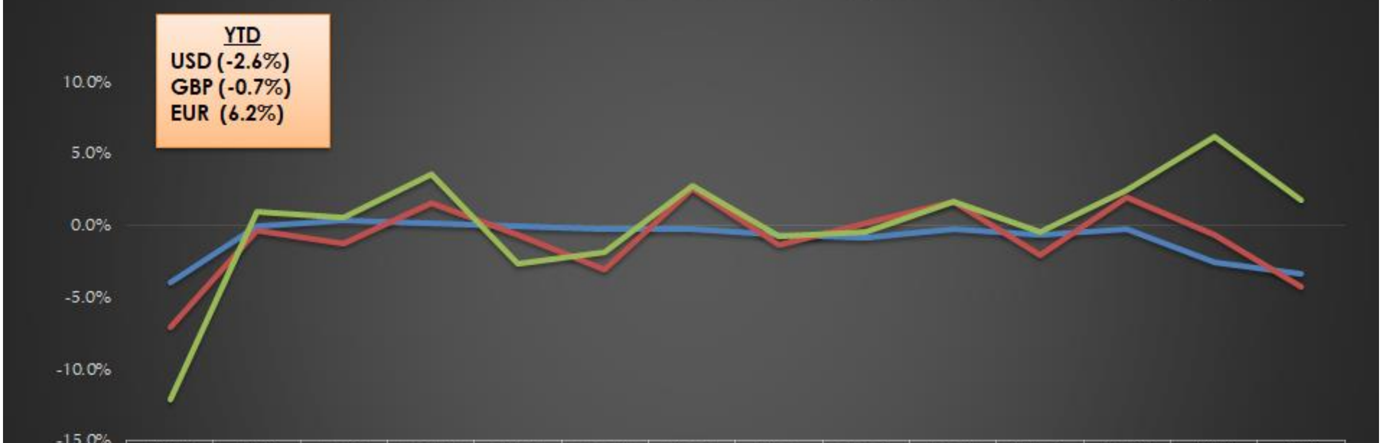
On the external sector, we expect the trade surplus to narrow in 2021 on the back of moderate production especially in crude oil and gold in spite of higher average oil and gold prices on the international commodities market. The trade surplus will steadily decline in the medium term, reflecting sluggish 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), and further to 1.7% in 2022. The deficits will be financed through external borrowing and FDI flows.

5. <u>Exchange Rate Developments</u>

- ✓ The strong reserve position provided some buffers for the local currency despite pressures in the third quarter due to strong foreign exchange demand from the corporate sector, importers, and offshore investors.
- ✓ Cumulatively, while the Ghana Cedi depreciated by 2.6 percent and 0.7 percent against the US Dollar and Pound Sterling, respectively in the year to November 22, 2021, the Ghana Cedi appreciated by 6.2 percent against the Euro.

FIG 4: RATE OF CURRENCY DEPRECIATION (-) & APPRECIATION (+)



	FY-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	YTD	YOY
USD	-3.9%	0.0%	0.4%	0.2%	-0.1%	-0.3%	-0.3%	-0.7%	-0.9%	-0.2%	-0.6%	-0.2%	-2.6%	-3.4%
GBP	-7.1%	-0.3%	-1.2%	1.6%	-0.6%	-3.0%	2.6%	-1.3%	0.2%	1.7%	-2.1%	2.0%	-0.7%	-4.2%
EUR	-12.1%	1.0%	0.6%	3.6%	-2.7%	-1.9%	2.8%	-0.7%	-0.4%	1.6%	-0.4%	2.5%	6.2%	1.8%

Source: Bank of Ghana & GCB Research.

For exchange rate outlook, the MPC was of the view that the country's sovereign bond spreads widened markedly over the period under review as investor sentiments shifted based on fiscal and debt sustainability concerns, prompting some sell-offs by investors with spillover effects on the domestic foreign exchange market. This triggered some currency pressures in the past two months as demand for the U.S. dollar increased. However, the adequate reserve levels provided some buffers and supported a much slower depreciation pace compared with pre-pandemic levels. Looking ahead, the Committee is of the view that the strong reserve buffer level should provide some assurance to the market and help abate investor concerns, as the country's external payment position remains strong.

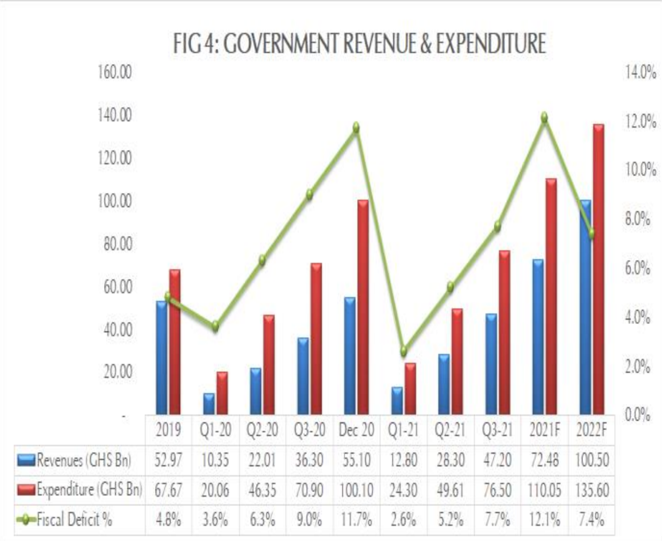
We share the same sentiment with the MPC as the relative stability in the cedi for major parts of this year has been on the back of the sale of foreign exchange in the spot and forward markets by BoG due to the strong reserve position of the country. We therefore expect marginal depreciation to continue throughout the remainder of 2021 cushioned by the special drawing rights (SDR) allocation worth US$1bn from the IMF, which will boost reserves. The currency is projected to end the year at GH¢6.02:US$1 (up from GH¢5.76:US$1 at end-2020) and to reach GH¢6.50:US$1 at end-2022. We then expect gradual depreciation in the medium term, owing to Ghana's sustained current-account deficit.

6. Fiscal Developments

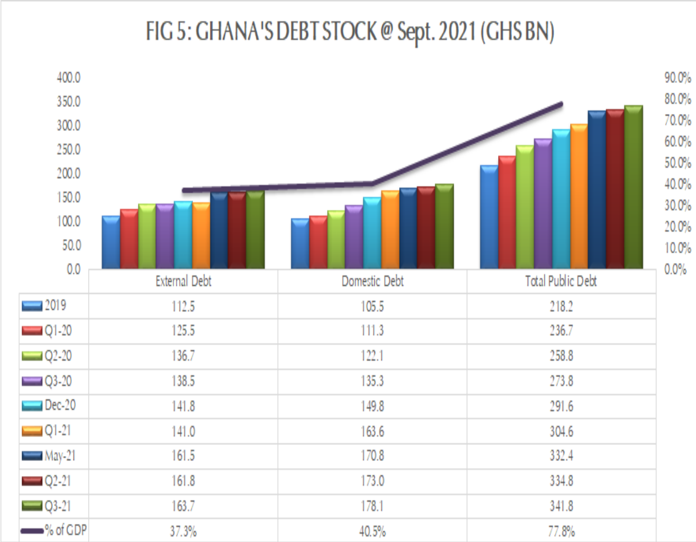
Fiscal/Debt Situation

- ✓ Provisional data on budget execution for the period January to September 2021 indicated an overall broad cash fiscal deficit of 7.7 percent of GDP, against the programmed target of 7.4 percent of GDP. The higher-than-programmed deficit was on the back of revenue shortfalls.
- ✓ The corresponding primary balance was a deficit of 1.9 percent of GDP compared to the target deficit of 1.7 percent of GDP.
- ✓ Over the period, total revenue and grants amounted to GH¢47.2 billion (10.8 percent of GDP), below the projected GH¢51.3 billion (11.7 percent of GDP).
- ✓ Total expenditures and arrears clearance amounted to GH¢76.5 billion (17.4 percent of GDP), which was below the programmed target of GH¢80.9 billion (18.4 percent of GDP).

- ✓ These developments impacted the stock of public debt which increased to 77.8 percent of GDP (GH¢341.8 billion) at the end of September 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¢178.1 billion (40.5 percent of GDP), while the external debt was GH¢163.7 billion (37.3 percent of GDP).



	2019	Q1-20	Q2-20	Q3-20	Dec 20	Q1-21	Q2-21	Q3-21	2021F	2022F
Revenues (GHS Bn)	52.97	10.35	22.01	36.30	55.10	12.80	28.30	47.20	72.48	100.50
Expenditure (GHS Bn)	67.67	20.06	46.35	70.90	100.10	24.30	49.61	76.50	110.05	135.60
Fiscal Deficit %	4.8%	3.6%	6.3%	9.0%	11.7%	2.6%	5.2%	7.7%	12.1%	7.4%



	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
Q2-21	161.8	173.0	334.8
Q3-21	163.7	178.1	341.8
% of GDP	37.3%	40.5%	77.8%

Source: Bank of Ghana.

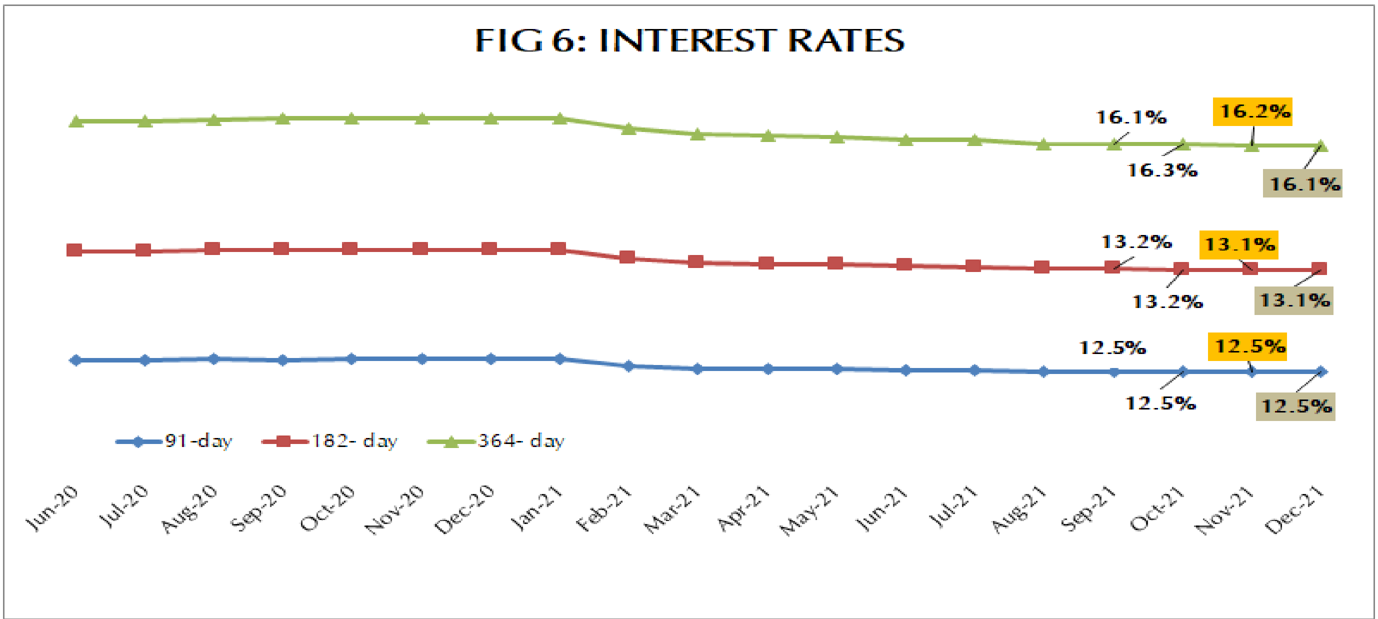
In the outlook, efforts to improve tax collection methods, including some temporary measures such as a 1-percentage-point increase in the national health insurance levy and the value-added tax (VAT) rate, will help to boost government receipts in the last quarter of 2021. According to the 2022 budget statement, government intends to raise a total revenue of GHS100.5 billion largely on the back of the e-levy with a rate of 1.75% on electronic transactions on MoMo payments, merchant payments and remittances.

Spending on the other hand is expected 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. For 2022, government seeks to spend a total of GHS135.6 billion with key drivers of expenditure including Capital Expenditure, funding of key Government flagship programmes including the GhanaCares "Obaatanpa" Programme, wage bill, and interest payment. Government fiscal deficit is projected at 12.1% of GDP in 2021, from 11.7% of GDP in 2020. This is projected at 7.4% of GDP in 2022 amounting to GHS37 billion. This will be financed through domestic and external borrowing with domestic borrowing projected at GHS27.9 billion.

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 78% before declining to 69% in the medium term due to output growth and fiscal consolidation. The government will remain reliant on borrowing from both external and domestic sources. Ghana plans to undertake external financing programme to raise at least US$750 million with an option to increase it by a further US$750 million for budget support and liability management in 2022.

7. Monetary Developments and Debt Market

- ✓ Provisional data at the end of October 2021 show a marked slowdown in the pace of expansion of key monetary aggregates. Broad money supply (M2+) recorded an annual growth of 14.5 percent in October 2021 relative to 29.9 percent in the corresponding period of 2020.
- ✓ The moderation was explained by a 19.5 percent year-on-year contraction in Net Foreign Assets of the banking system, despite the 21.4 percent growth in Net Domestic Assets.
- ✓ Reserve money went up by 25.9 percent compared with 26.1 percent growth over the same review period.
- ✓ On the money market, interest rates generally trended downwards over the review period. The 91-day and 182-day Treasury bill rates declined to 12.5 percent and 13.2 percent respectively in October 2021, from 14.05 percent and 14.11 percent, respectively in October 2020.
- ✓ Similarly, the rate on the 364-day instrument decreased to 16.2 percent from 17.0 percent over the period.
- ✓ Except for rates on the 3-year, 15-year and 20-year bonds which remained unchanged at 19.0 percent, 19.8 percent and 20.2 percent respectively, rates on the other medium to long-term instruments generally declined during the period.
- ✓ On the secondary market, however, rates have started increasing across the spectrum of the yield curve.
- ✓ On the interbank market, the weighted average rate declined to 12.7 percent from 13.6 percent, largely reflecting improved liquidity conditions, which transmitted to lending rates.
- ✓ Average lending rates of banks declined to 20.3 percent in October 2021 from 21.3 percent in October 2020, consistent with developments in the interbank market.

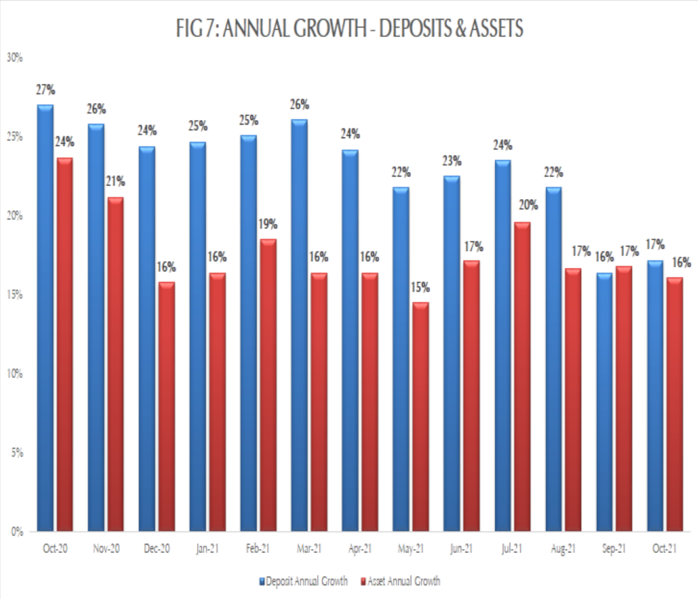


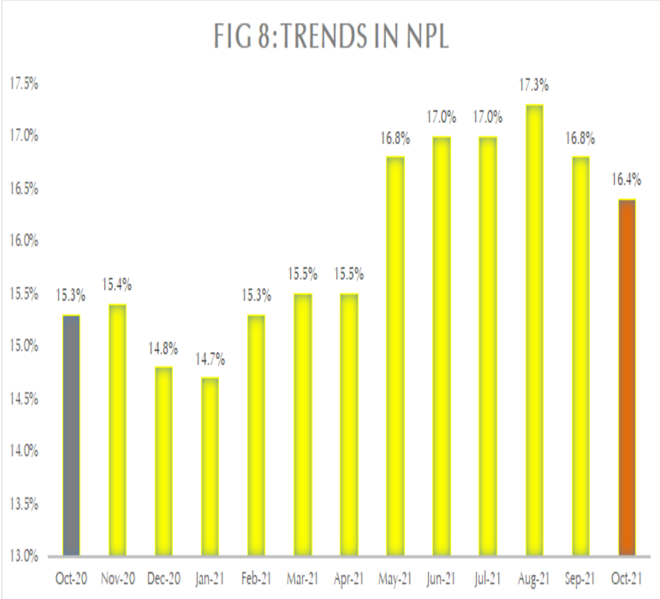
Source: Bank of Ghana & GCB Research.

We forecast interest rates on the short end of the money market to show a marginal uptick in the last two months of the year with the 91-day and 182-day bills projected to close the year at 12.5% and 13.1% respectively. The 364-day instrument is also forecast at 16.1% for the same period. This is a reflection of the 100bsp increase in the MPC rate to 14.5% and government borrowing requirements to shore up revenue shortfalls in 2021.

8. Banking Sector Developments

- ✓ The banking sector remains sound, and well-capitalised with strong growth in total assets, investments and deposits.
- ✓ In the first ten months of the year, total assets increased by 16.1 percent to GH¢173.8 billion, reflecting strong growth in investments in government securities by 25.5 percent to GH¢83.4 billion.
- ✓ The gradual growth in gross advances has continued, with 8.9 percent growth as at end-October 2021 compared to the end-June position of 5.2 percent growth.
- ✓ Deposits grew by 17.2 percent year-on-year to GH¢117.4 billion on the back of strong liquidity flows.
- ✓ The industry's Capital Adequacy Ratio of 19.8 percent as at end-October 2021 was well above the current regulatory minimum threshold of 11.5 percent.
- ✓ Core liquid assets to short-term liabilities was 24.6 percent in October 2021 compared with 27.0 percent in October 2020.
- ✓ Net interest income grew by 15.2 percent to GH¢10.5 billion, compared with 19.9 percent growth over the same review period.
- ✓ Net fees and commissions recorded a stronger growth of 22.9 percent to GH¢2.3 billion, relative to 6.1 percent growth for same period last year, reflecting continued recovery in trade finance-related and other ancillary businesses of banks.
- ✓ Total operating income grew by 14.3 percent to GH¢14.1 billion, marginally lower than the previous year's growth of 16.6 percent.
- ✓ Operating costs increased by 11.0 percent, relative to the 9.9 percent growth for same period in 2020.
- ✓ Growth in loan loss provisions, however, moderated to 6.5 percent as at end-October 2021 from 18.9 percent a year ago.
- ✓ These developments resulted in profit before tax of GH¢6.0 billion, representing a year-on-year growth of 21.8 percent at the end of October 2021.
- ✓ Asset quality has improved somewhat in the course of the year. The Non-Performing Loans (NPL) ratio declined to 16.4 percent in October 2021 from 17.3 percent recorded in August 2021. A year ago, however, the NPL ratio was 15.3 percent in October 2020.
- ✓ The Covid-related policy measures and regulatory reliefs remain in place and have provided enough support to enable the banks withstand shocks. Trends in the private sector indicate some modest recovery in credit extension, although the year-on-year comparison suggests sluggishness, which broadly reflects the lingering pandemic-related risk aversion on the part of credit institutions.
- ✓ Annual nominal growth in private sector credit slowed to 10.1 percent in October 2021 compared with 13.4 percent a year ago.
- ✓ In real terms, private sector credit contracted marginally by 0.8 percent compared with a 3.0 percent growth, recorded over the same review period.
- ✓ New loans and advances for the year thus far booked by banks, totalled GH¢28.4 billion in the year to October 2021, marginally above the GH¢27.1 billion for the same period in 2020.





Source: Bank of Ghana

9. Our Outlook for the Policy Rate

After maintaining the policy rate for the last five months, BoG has increased the policy rate by 100bsp to 14.5% from 13.5% citing elevated inflationary risks. The Committee indicated that the risk requires prompt policy action to re-anchor inflation expectations to safeguard the central bank's price stability objective. Prior to the increase in the policy rate we have indicated in our last review report in September that **"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."** Headline inflation has risen consistently from the low of 7.5 percent in May 2021 to 11.0 percent in October driven by both food and non-food price increases. In addition, all the BoG's core measures of inflation have increased, indicating significant risks to the inflation outlook. These risks include rising global inflation, high energy prices, uncertainties surrounding food prices and investor behaviour. Should these risks persist into the future, BoG will shift to a moderately more hawkish stance in 2022 to focus on inflation targeting and support the cedi.

10. Implications for GCB Bank

1. According to the MPC report, economic activity during the third quarter continues to point to sustained recovery from the pandemic. Predominant in the recovery is port activity and imports which signifies increasing trading activities in the second half of 2021. This presents an opportunity for us to finance the trade needs of our corporate/commercial banking customers through Letters of Credit (LCs) to generate deposits and growth in net fees and commissions.
2. The MPC report has also indicated a sluggish growth in credit which the Committee sees it as a risk to real sector recovery. This is a signal that the effects of a prolonged pandemic on the banking sector particularly on asset quality continue to linger in the operating environment. Also, credit to the private sector is beginning to expand, albeit at a slow pace due to the inherent risks such as persistent price pressures, fiscal and debt sustainability concerns in the economy. This therefore requires the needed monitoring of loan portfolios on the part of business managers in the Bank to detect early warning signs of loan deterioration for possible restructuring, provisioning and recovery.
3. Furthermore, opportunity exists for investing in attractive Government bonds by the Treasury department on high yields offered on Government securities on the back of rising rates at the long end of the debt market. Government seeks to borrow a total of **GHS27.9 billion** in 2022 from the domestic market.

4. Also, we expect the uptick in rates that would arise from the 100bsp increase in the policy rate to reflect in the pricing of our asset and liability products.