GCB BANK LIMITED

Planning and Research Monthly/Quarterly Economic Updates | Issue 28 | December 2021

CONTENT

Key Macroeconomic Indicators and Forecast	Actual	Forecast			
	Dec-21	Jan-22	Feb-22	Mar-22	Dec-22
GDP (%)	4.4%			4.0%*	4.8%
Inflation (Consumer Price Index)	12.5%*	12.0%	11.9%	11.8%	10.9%
MPR (Monetary Policy Rate)	14.5%	14.5%	14.5%	14.5%	15.0%
91-Day Treasury Bill	12.5%	12.5%	12.5%	12.4%	12.4%
182-Day Treasury Bill	12.5%	13.3%	13.3%	13.3%	13.4%
1-Year Bond Rate	16.6%	16.7%	16.7%	16.8%	17.1%
FX Rate (USD/GHS)	6.0061	6.0782	6.1511	6.2249	6.3400
FX Rate (GBP/GHS)	8.1272	8.1296	8.1320	8.1345	8.4000
FX Rate (EUR/GHS)	6.8281	6.8301	6.8322	6.8342	7.3400
Gold (US$/oz)	1,828.60	1,866.18	1,867.62	1,883.13	1,809.50
Cocoa (US$/ton)	2,439.31	2,494.99	2,425.97	2,528.53	2,510.76
WTI (US$/bbl)	75.21	76.73	77.28	78.27	75.02
Brent (US$/bbl)	77.78	79.67	80.81	81.92	79.56

*Forecast - GDP, Inflation

Executive Summary

Macro Indicators	Current Situation	Outlook
Economic growth	• Provisional real GDP growth rate including Oil and Gas, was 6.6% (year on year) in the third quarter of 2021. In the same period of 2020, the growth was -3.2%. • GDP growth rate without oil and gas (Non-Oil GDP) for third quarter 2021 was 8.6% which compares to the same period in 2020 with a growth rate of -3.0%. • The Service sector recorded the highest growth of 13.4%, followed by the Agriculture sector with a growth of 9.2%. The Industry sector contracted by 2.0 percent.	• In the outlook, we forecast economic growth to accelerate to 4.8% in 2022, bolstered by a stronger recovery in consumer spending, rising investment and solid export performance, notably by the gold sector.
Fiscal Policy	• 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).	• Looking ahead, revenues will continue to underperform in 2022, and be the main driver of a wide fiscal deficit, which we expect to come in at **8.2%** of GDP, compared to the official forecast of **7.4%.**
Debt Sustainability	• Developments in the fiscal space 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).	• Public borrowing will continue to increase over the coming years - we expect total public debt to rise to **83%** of GDP in 2022 to cover the government's budget shortfalls.
Inflation	• Recent price developments showed elevated pressures on headline inflation in the second half of 2021. • The last three readings pointed to a sharp increase in headline inflation from 9.7 percent in August 2021 to 10.6 percent in September, 11.0 percent in October and further up to 12.2% in November. This indicates that currently inflation is out of the medium-term target band of 8±2 percent of the BoG target range. • The rise in inflation for November 2021 was largely driven by food prices, which increased from 11.0 percent in October to 13.1 percent in November 2021. Non-food inflation also inched up from 11.0 percent in October to 11.6 percent in November 2021.	• We expect headline inflation rate to remain at its current high levels into early 2022, driven by supply-side price pressures (including rising global oil prices, logistical bottlenecks, and high utility and domestic food costs). • We forecast inflation to end the year 2022 at **10.9±2%.** For the month of January 2022, we forecast inflation of **12.2±2%.**
Interest Rate	• On the money market, interest rates generally trended downwards over the review period. • The 91-day and 182-day Treasury bill rates declined to 12.51 percent and 13.19 percent respectively in December 2021, from 14.09 percent and 14.12 percent, respectively in December 2020. • Similarly, the rate on the 364-day instrument decreased to 16.57 percent from 16.99 percent over the same period. • The BoG hiked its policy rate by 100bsp to 14.5% from 13.5% in the last MPC meeting in November 2021 with the committee sighting elevated inflationary risk as the basis of the monetary tightening.	• We expect that the Bank of Ghana (BoG) will raise its benchmark interest rate by a further 50 basis points (bps) to **15.00%** by the end of 2022, after hiking by 100 bps at its November 2021 meeting. • Economic growth will gather momentum in the coming quarters, thus providing the central bank with room to focus on containing inflation, which we expect to remain subject to upward pressures in 2022. • We forecast interest rates on the money market to be relatively stable at the short end of the market in 2022 with the 91-day, 182-day and 364-day bill projected to inch up marginally in the short term.
Exchange Rate	• The cedi came under pressure in the second half of the year especially in the last quarter due to demand pressures. • The cedi depreciated against the dollar, GBP and EUR by 1.5%, 2.7% and 1.4% respectively in the month of December 2021. • As at the end of 2021, the cedi has seen a cumulative depreciation of 4.1% and 3.1% against the dollar and GBP respectively. It however appreciated by 3.5% against the EUR.	• We expect the cedi to weaken mildly further over our long-term forecast horizon, depreciating by 5.3% over the course of 2022 to **GHS6.34/USD** by the end of the year. • Current account pressure will increase amid a widening of the deficit -driven by a sharp increase in imports as private consumption and fixed investment growth accelerates. • The resulting uptick in demand for USD will be the main driver of cedi depreciation in the coming quarters.
Business Impact	• Opportunity to Invest in Long Term Attractive Govt. Securities. • Key Sectors for Targeting: (Service sector -Education, ICT, Health & Social Work etc). • Trade Transactions	

02 Economic Developments

Global Overview-*Recovery During a Pandemic-Health Concerns, Supply Disruptions, and Price Pressures.*

According to the IMF, the global economy is projected to grow at 5.9 percent in 2021 and 4.9 percent in 2022. 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.

In spite of the positive outlook to global growth in 2022, there are a lot of downside risk to the outlook. Key among them are the following:

Omicron could be a game-changer for the pandemic

The new Omicron variant of covid-19 could be a game-changer for the pandemic. Currently data coming out indicates that Omicron is more transmissible, but less severe than Delta, and that three doses of the current vaccines offer solid protection against severe forms of covid-19. If this proves to be the case, Omicron's impact on global growth will turn out to be negative and the global economy will recover faster in 2022 than we currently expect. However, if Omicron proves to be as or more severe than Delta, the recovery will slow in 2022.

A sustained rise in inflation poses a risk to the global recovery

Inflation jumped in 2021 as the global economic recovery got under way; the pandemic disrupted supply chains, and commodities prices soared to record highs. Supply-chain disruptions will last until mid-2022 at least, fuelling rises in industrial and consumer prices. However, we assume that inflation will edge down in 2022-25, and therefore expect interest rates to remain low during that period, keeping public debt servicing at manageable levels. A sustained rise in inflation is—alongside Omicron—one of the main risks to the global outlook.

Major central banks will soon start to tighten monetary policy

In a move to ensure that higher inflation expectations do not become entrenched, major central banks may respond by tightening monetary policy sooner and more quickly than investors are currently expecting, which could destabilise financial markets and emerging countries. The Federal Reserve (Fed, the US central bank) has already signalled that interest rates could rise as soon as possible than earlier anticipated. Benchmark US bond yields have also started to rise, and if this trend accelerates, it will push up debt-servicing costs, slowing the economic recovery.

Supply-side factors are weighing on global trade flows

The covid-19 pandemic had a huge impact on trade flows in 2020, with goods trade contracting by about 5% and services trade shrinking by about 20% (owing mainly to a drop in global tourist flows). Global goods trade volumes rebounded sharply in 2021, fuelled by recovering demand as economies reopened. However, supply-side factors are a risk. A global shortage of semiconductors, driven by a sharp rise in demand for electronics due to the shift to remote working, is disrupting production across many industries. In addition, Covid-induced disruption to transport links has sent freight rates to record-high levels. The recovery in services trade will be slower; we do not expect tourism flows to recover to pre-coronavirus (2019) levels before late 2023 or early 2024.

Widespread immunisation will not be achieved until 2023 at the earliest

The pace of immunisation programmes will determine economic prospects in 2022 and beyond. December 2021 marked the first anniversary of the launch of the global vaccination campaign against covid-19. Raw data paint a positive picture: as at mid-December 2021 more than 8.4bn doses had been administered around the world. However, regional- and country-level figures tell a different story: some (mostly developed) countries have succeeded in vaccinating large percentages of their populations, but many (mostly developing) countries have made only negligible progress owing to production and logistical issues. We believe that countries that failed to vaccinate the bulk of their populations in 2021 are unlikely to do so before 2023.

The slow rollout of coronavirus vaccines poses a major risk to the recovery

The global divide regarding access to vaccines will have economic implications. First, it will weigh on the global recovery: rich countries will be able to lift social distancing measures, while poorer ones continue to battle against the pandemic. Second, this situation will continue to weigh on tourism, with some vaccinated people reluctant to travel to unvaccinated places. Third, continued circulation of the virus increases the risk that more aggressive variants emerge, as the apparition of the Omicron variant illustrates. If these prove even partly resistant to vaccines, they could wipe out progress in containing the pandemic and further delay the recovery. The virus will remain prevalent for several years in an endemic form, making living with covid-19 the new normal.

Table 1: Overview of the World Economic Outlook Projections

Table 1.1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

		Projections		Difference from July 2021 WEO *Update*[1]		Difference from April 2021 WEO[1]	
	2020	2021	2022	2021	2022	2021	2022
World Output	**–3.1**	**5.9**	**4.9**	**–0.1**	**0.0**	**–0.1**	**0.5**
Advanced Economies	**–4.5**	**5.2**	**4.5**	**–0.4**	**0.1**	**0.1**	**0.9**
United States	–3.4	6.0	5.2	–1.0	0.3	–0.4	1.7
Euro Area	–6.3	5.0	4.3	0.4	0.0	0.6	0.5
Germany	–4.6	3.1	4.6	–0.5	0.5	–0.5	1.2
France	–8.0	6.3	3.9	0.5	–0.3	0.5	–0.3
Italy	–8.9	5.8	4.2	0.9	0.0	1.6	0.6
Spain	–10.8	5.7	6.4	–0.5	0.6	–0.7	1.7
Japan	–4.6	2.4	3.2	–0.4	0.2	–0.9	0.7
United Kingdom	–9.8	6.8	5.0	–0.2	0.2	1.5	–0.1
Canada	–5.3	5.7	4.9	–0.6	0.4	0.7	0.2
Other Advanced Economies[2]	–1.9	4.6	3.7	–0.3	0.1	0.2	0.3
Emerging Market and Developing Economies	**–2.1**	**6.4**	**5.1**	**0.1**	**–0.1**	**–0.3**	**0.1**
Emerging and Developing Asia	–0.8	7.2	6.3	–0.3	–0.1	–1.4	0.3
China	2.3	8.0	5.6	–0.1	–0.1	–0.4	0.0
India[3]	–7.3	9.5	8.5	0.0	0.0	–3.0	1.6
ASEAN-5[4]	–3.4	2.9	5.8	–1.4	–0.5	–2.0	–0.3
Emerging and Developing Europe	–2.0	6.0	3.6	1.1	0.0	1.6	–0.3
Russia	–3.0	4.7	2.9	0.3	–0.2	0.9	–0.9
Latin America and the Caribbean	–7.0	6.3	3.0	0.5	–0.2	1.7	–0.1
Brazil	–4.1	5.2	1.5	–0.1	–0.4	1.5	–1.1
Mexico	–8.3	6.2	4.0	–0.1	–0.2	1.2	1.0
Middle East and Central Asia	–2.8	4.1	4.1	0.1	0.4	0.4	0.3
Saudi Arabia	–4.1	2.8	4.8	0.4	0.0	–0.1	0.8
Sub-Saharan Africa	–1.7	3.7	3.8	0.3	–0.3	0.3	–0.2
Nigeria	–1.8	2.6	2.7	0.1	0.1	0.1	0.4
South Africa	–6.4	5.0	2.2	1.0	0.0	1.9	0.2
Memorandum							
World Growth Based on Market Exchange Rates	–3.5	5.7	4.7	–0.3	0.1	–0.1	0.6
European Union	–5.9	5.1	4.4	0.4	0.0	0.7	0.5
Middle East and North Africa	–3.2	4.1	4.1	0.0	0.4	0.1	0.4
Emerging Market and Middle-Income Economies	–2.3	6.7	5.1	0.2	–0.1	–0.2	0.1
Low-Income Developing Countries	0.1	3.0	5.3	–0.9	–0.2	–1.3	0.1
World Trade Volume (goods and services)	**–8.2**	**9.7**	**6.7**	**0.0**	**–0.3**	**1.3**	**0.2**
Imports							
Advanced Economies	–9.0	9.0	7.3	–0.7	–0.3	–0.1	0.9
Emerging Market and Developing Economies	–8.0	12.1	7.1	0.7	0.0	3.1	–0.3
Exports							
Advanced Economies	–9.4	8.0	6.6	0.0	0.0	0.1	0.2
Emerging Market and Developing Economies	–5.2	11.6	5.8	0.8	–0.9	4.0	–0.2
Commodity Prices (US dollars)							
Oil[5]	–32.7	59.1	–1.8	2.5	0.8	17.4	4.5
Nonfuel (average based on world commodity import weights)	6.7	26.7	–0.9	0.2	–0.1	10.6	1.0
Consumer Prices							
Advanced Economies[6]	0.7	2.8	2.3	0.4	0.2	1.2	0.6
Emerging Market and Developing Economies[7]	5.1	5.5	4.9	0.1	0.2	0.6	0.5
London Interbank Offered Rate (percent)							
On US Dollar Deposits (six month)	0.7	0.2	0.4	–0.1	0.0	–0.1	0.0
On Euro Deposits (three month)	–0.4	–0.5	–0.5	0.0	0.0	0.0	0.0
On Japanese Yen Deposits (six month)	0.0	–0.1	0.0	–0.1	0.0	0.0	0.0

Source: IMF staff estimates.

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during July 23–August 20, 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, July 2021 WEO *Update*, and April 2021 WEO forecasts.

[2]Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

[3]For India, data and forecasts are presented on a fiscal year basis, and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.

Ghana Economic Growth- ***Growth to rebound in 2022 on the back of a stronger recovery in consumer spending, rising investment and solid export performance, notably by the gold sector.***

Provisional real GDP growth rate including Oil and Gas, was 6.6% (year on year) in the third quarter of 2021. In the same period of 2020, the growth was -3.2%. GDP growth rate without oil and gas (Non-Oil GDP) for the third quarter 2021 was 8.6% which compares to the same period in 2020 with a growth rate of -3.0%. The Service sector recorded the highest growth of 13.4%, followed by the Agriculture sector with a growth of 9.2%. The Industry sector contracted by 2.0 percent.

The Services sector was the largest sector of the Ghanaian economy in the third quarter of 2021 with a share of 45 percent of GDP at basic prices. The GDP share of Industry and Agriculture were 31 percent and 24 percent respectively.

The GDP (Including Oil & Gas) estimate at constant 2013 prices for the 3rd quarter of 2021 was GH¢43,093.5 million compared to GH¢40440.3 million in the 3rd quarter of 2020. The Non-oil GDP for the 3rd quarter of 2021 was GH¢39,974.4 million compared to GH¢36,823.7 million in the 3rd quarter of 2020.

Nominal GDP for the 3rd quarter of 2021 was GH¢110,111.0 million compared to GH¢91,563.4 million in the 3rd quarter of 2020. That for Non-oil GDP for the 3rd quarter of 2021 was GH¢105,627.3 million compared to GH¢88,504.8 million in the 3rd quarter of 2020.

The Crops, Education, Trade, Repair of vehicles, Household goods, Manufacturing and Information & Communication sub-sectors were the main drivers of GDP growth for the third quarter of 2021.

Main sub-sectors that expanded in quarter three of 2021 were:

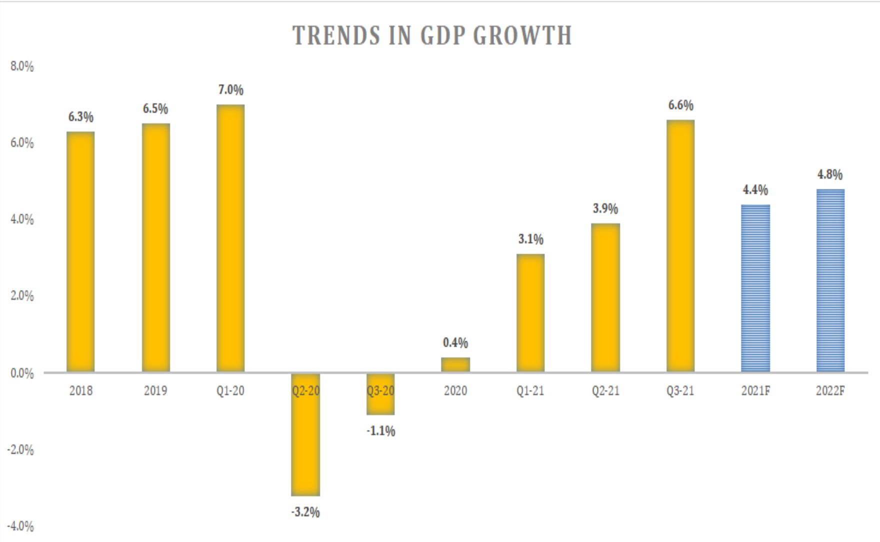
- Education (24.2%);
- Health & Social Works (20.5%);
- Information & Communication (17.0%);
- Professional Administrative & Support (16.7%);
- Hotel & Restaurants (16.4%);
- Public Administration & Defence, Social Security (16.3%)
- Fishing (14.3%);
- Real Estate (11.5%);
- Crops (9.8%).

Sub-sector that contracted in quarter three of 2021 was:

- Mining & Quarrying (-11.2%).

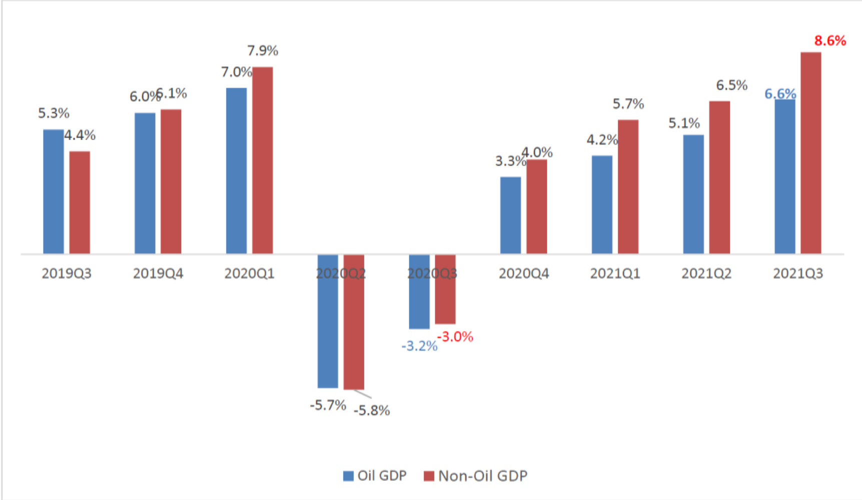
At GCB Research, we continue to expect real GDP growth to come in at 4.4% in 2021, compared to 0.4% same period in 2020. This growth would be underpinned by recovery in economic activity due to easing restrictions with growth coming from trade activities, ICT, hotels and restaurants, crops-cocoa sector etc.

Fig 1: Trends in Real GDP Growth Rate



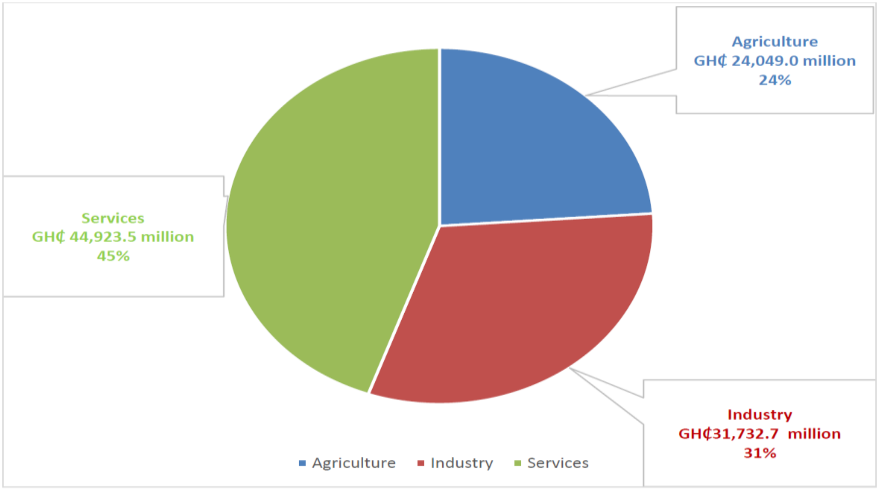
Source: Ghana Statistical Service (GSS)

Fig 2: Quarterly real GDP growth rate (2019Q3-2021Q3)



Source: Ghana Statistical Service (GSS)

Fig 3: Sectoral distribution (%) of nominal GDP at Basic Prices



Source: Ghana Statistical Service (GSS)

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

Sector	Expanding sub-sectors		Contracting sub-sectors	
Agriculture (9.2%)	Fishing	14.3%		
	Crops	9.8%		
	Livestock	5.8%		
	Forestry & Logging	2.7%		
Industry (-2.0%)	Manufacturing	7.5%	Mining & Quarrying	-11.2%
	Water Supply, Sewerage, Waste Management & Remediation Activities	6.7%		
	Electricity	5.1%		
	Construction	1.7%		
Services (13.4%)	Education	24.2%		
	Health & Social Work	20.5%		
	Information & Communication	17.0%		
	Professional, Administrative& Support	16.7%		
	Hotel & Restaurants	16.4%		
	Public Administration & Defence, Social Security	16.3%		
	Real Estate	11.5%		
	Trade, Repair of Vehicle, Household Goods	9.7%		
	Transport & Storage	7.9%		
	Other Personal Service Activities	6.2%		
	Finance & Insurance	5.4%		

Source: Ghana Statistical Service (GSS)

In the outlook, our expectation is for the economy to strengthens in 2022. We expect economic growth to accelerate to 4.8% in 2022 (Government forecast rate is 5.8%). Household spending is likely to rise, adding 3.3pp to real GDP growth as the vaccination programme progresses, which we expect will facilitate a further easing of restrictions and normalisation of retail activities. In October, the US donated 1.3mn doses of the Pfizer vaccine and a group of European countries provided 2.0mn doses of the AstraZeneca jab, which will help to address Ghana's supply challenges, and make further lockdowns unlikely. This will contribute to a stronger recovery in hiring, and thus an uptick in household incomes.

Business activity will continue to recover, and we expect fixed investment to accelerate to about 4.2%. After a period of weak performance in 2020 and early 2021, foreign investment accelerated in Q221, and we expect this trend to continue in 2022, bolstered by fresh investment by mining companies such as **Gold Fields** and **Newmont Goldcorp**. Meanwhile, a moderate rise in capital spending by the government in its budget statement will incentivise investment by the construction sector. Overall, however, growth in fiscal spending will moderate compared to recent years, and we thus expect government consumption to add just a little to economic growth.

We expect that net exports will also contribute to headline growth, despite a notable increase in imports caused by higher growth in private consumption and investment. In particular, exports of gold will increase on the back of rising investment in mining production capacity. Gold output is expected to rise by 4.0% to 5.0mn ounces, and as a result Ghana will remain Sub-Saharan Africa's largest gold producer. Moreover, steady global real GDP growth – IMF forecast of 4.9% in 2022 - will sustain demand for Ghana's non-metals exports such as fruit and nuts (3.5% of exports), wood (2.9%) and cotton (2.3%).

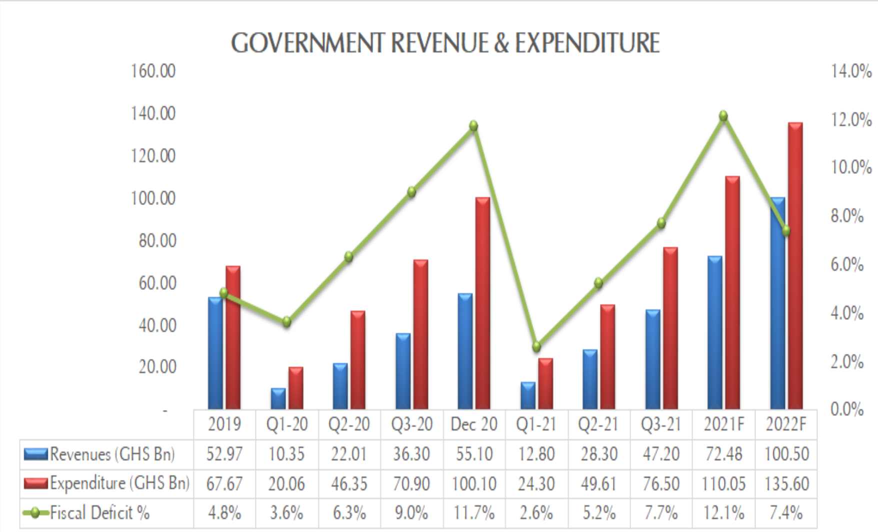
Services will remain steady in 2022; the spread of the Omicron variant will weigh on tourism recovery in the near term, particularly in the first quarter of 2022, but tourism should pick up pace in the second half of 2022 as the threat subsides. The agricultural sector will register growth, benefiting from government investment to improve cocoa yields and moves towards self-sufficiency for staples such as rice. Also, the CARES initiative will buttress growth in the agricultural sector in 2022 by supporting increases in cocoa output and agro-processing.

Overall, real GDP growth in Ghana will recover in the medium term, after slowing to an estimated 0.4% in 2020 as a result of the pandemic. We believe that growing investment into the manufacturing, technology, transport and services sectors will sustain growth in the coming years, as will a general recovery in private consumption as population growth continues apace, and the negative impact of the pandemic on household incomes and the labour market recedes.

Fiscal Policy- ***Revenue underperformance will be the main driver of a wide fiscal deficit in 2022.***

On fiscal policy, 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). However, and according to the government economic policy for 2022, fiscal deficit is projected at 12.1% for 2021, reflecting a weaker recovery in government revenues than previously anticipated.

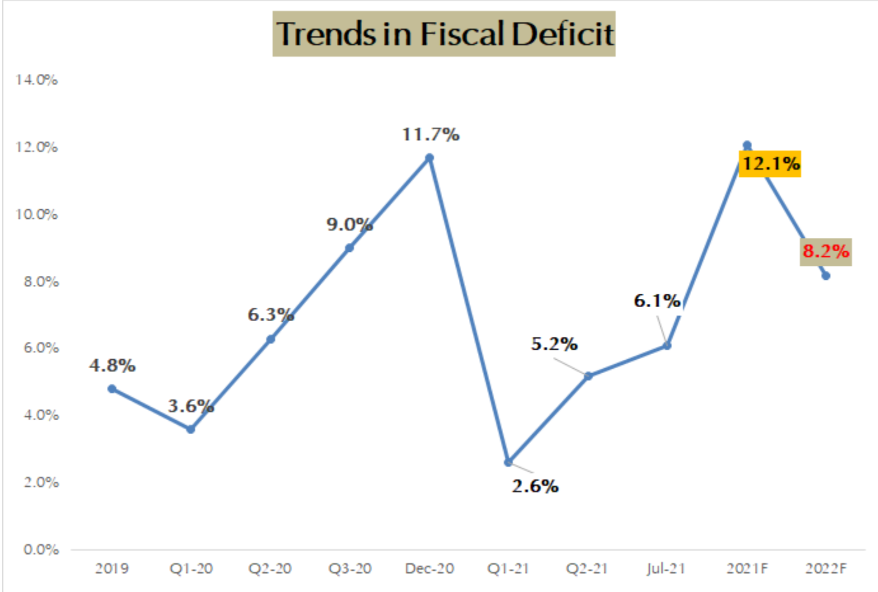
Fig 4: Trends in Budget Deficit



	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%

Source: MoFEP/Budget Statement

Fig 5: Trends in Budget Deficit



Source: MoFEP/Budget Statement

Looking ahead, revenues will continue to underperform in 2022, and be the main driver of a wide fiscal deficit, which we expect to come in at **8.2%** of GDP, compared to the official forecast of **7.4%.** The 2022 budget contains several tax changes intended to bolster government revenues in 2022, including the introduction of a new levy on electronic transactions (1.75% of the value of digital transactions), a 15.0% increase in fees and charges applied by government entities, and the removal of discounts on certain categories of import duties. Improvements to revenue collection systems are also planned, including a streamlined online platform for administering property taxes, which aims to expand the narrow tax base (currently, only 9.0% of Ghanaian property owners pay property tax, according to official reports). However, we believe that these reforms will be only partially implemented, and - consistent with our more bearish real GDP growth forecast of 4.8% in 2022, compared to the finance ministry's 5.8% -we believe that receipts from income tax and value-added tax will continue to undershoot official projections. As a result of these factors, we expect total revenues to rise from a forecast 14.2% of GDP to 18.0% - or GHS91.2bn, below the government's target of GHS100.5bn.

Meanwhile, expenditure will remain elevated in the coming quarters. The 2022 budget details increased allocations for public sector wages, procurement of goods and services, and transfers to other government entities. It also outlines a significant 28.8% hike in capital spending relative to planned 2021 levels, in part reflecting efforts to continue supporting the economic recovery from the pandemic under the Ghana CARES 'Obaatan Pa' recovery programme. While we expect bureaucratic inefficiencies to persist and cause some underspending – we expect total expenditure of GHS132.7bn, below the official forecast (GHS135.6bn) - expenditure will nevertheless continue to substantially outweigh revenues, and result in a wide budget shortfall of 8.2% of GDP. Having widened considerably as a result of the coronavirus pandemic, we expect Ghana's fiscal deficit to narrow gradually in the long term due to greater expenditure control and improved revenue collection, as well as rising revenues from commodity exports. Debt will remain elevated in absolute terms, though its size relative to GDP will stabilise and gradually fall from the mid-2020s onwards, due to robust real GDP growth and a somewhat smaller deficit.

Debt Sustainability-*Ghana's debt likely to remain above the debt sustainability level with a forecast of 83% of GDP in 2022.*

Developments in the fiscal space 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).

Fig 6: Public Debt Development

	External Debt	Domestic Debt	Total Public Debt
2019	112.5	105.5	218.2
Q1-20	125.5	111.3	236.7
Q2-20	136.7	122.1	258.8
Q3-20	138.5	135.3	273.8
Dec-20	141.8	149.8	291.6
Q1-21	141.0	163.6	304.6
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, public borrowing will continue to rise in the coming years to cover the government's budget shortfalls. We forecast total public debt rising from a forecast 78.0% of GDP in 2021 to 83% in 2022. After successfully issuing a USD3.0bn Eurobond sale in April 2021 (that was twice oversubscribed), the government says it plans an additional USD2.0bn in external borrowing from concessional and nonconcessional sources in the coming quarters, which will drive public debt higher.

Ghana's high levels of public debt will likely remain a concern for investors in the years ahead. A sustained fiscal deficit - albeit a moderately narrowing one - will see Ghana's debt stock continue to rise over the coming years, but as a proportion of GDP it should stabilise by the mid-2020s, and then gradually reduce during the second half of the decade. We are of the view that Ghana will see somewhat narrower fiscal deficits and slower growth in public borrowing in the long term. This will bring the debt burden down slightly as a percentage of GDP in the second half of the 2020s. While a large debt load in itself is not a direct threat to financial stability, we do not rule out the debt load causing some problems over the long term due to the high interest payments the debt entails.

Inflation- ***Headline inflation rate to remain at its current high levels into early 2022, driven by supply-side price pressures***

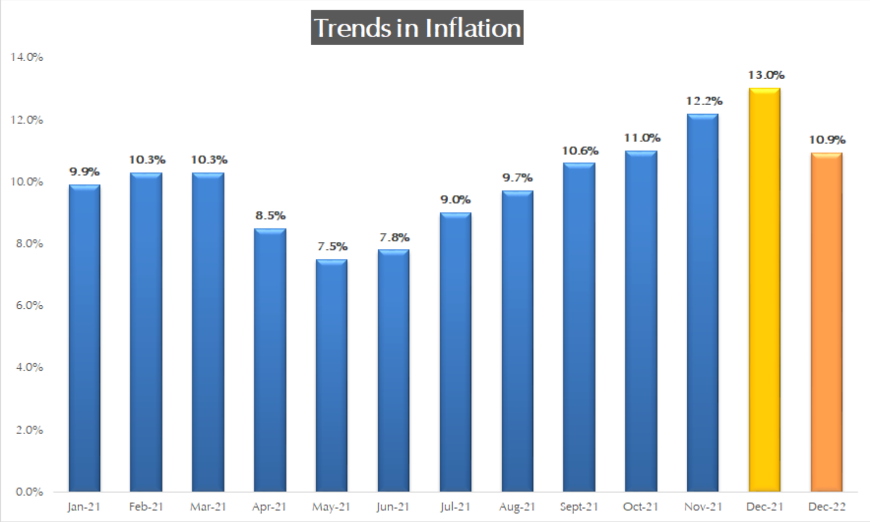
Recent price developments showed elevated pressures on headline inflation in the second half of 2021. The last three readings pointed to a sharp increase in headline inflation from 9.7 percent in August 2021 to 10.6 percent in September, 11.0 percent in October and further up to 12.2% in November. This indicates that currently inflation is out of the medium-term target band of 8±2 percent of the BoG target range.

The rise in inflation for November 2021 was largely driven by food prices, which increased from 11.0 percent in October to 13.1 percent in November 2021. Non-food inflation also inched up from 11.0 percent in October to 11.6 percent in November 2021.

Similar to the trends in headline inflation, underlying inflation pressures are also increasing. All the BoG's core measures of inflation also increased in the second half of 2021. 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.

GCB Research forecast inflation to end the year 2021 at **12.5±2** percent. This will be driven mainly by sustained food price increases, rising global commodity prices and supply-chain disruption, owing to the pandemic.

Fig 7: Inflation rate



Source: GSS/ GCB Research Forecast

We expect headline inflation rate to remain at its current high levels into early 2022, driven by supply-side price pressures (including rising global oil prices, logistical bottlenecks, and high utility and domestic food costs). On average, inflation will rise further (to 9.9%) in 2022 as prices for global commodities (especially oil) continue to rise, domestic demand starts to pick up further and the local currency depreciates. This will result in monetary tightening by the BoG in 2022. We forecast inflation to end the year 2022 at 10.9±2%. For the month of January 2022, we forecast inflation of 12.2±2%.

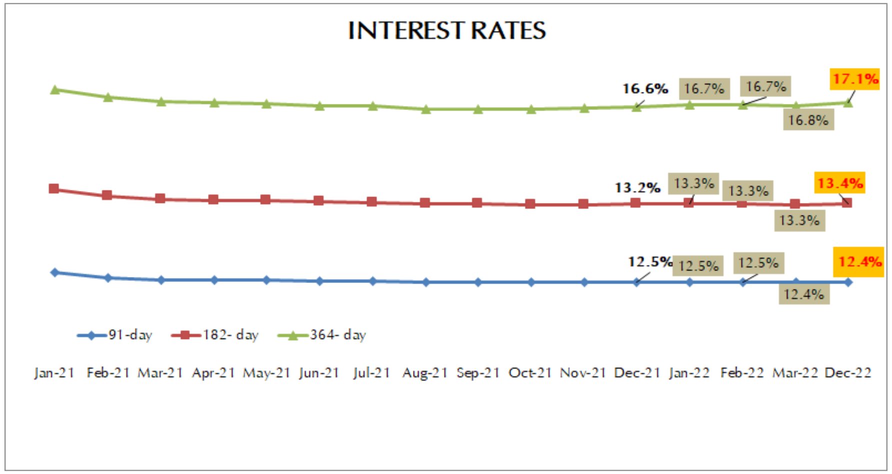
Interest Rates- ***BoG to hike Monetary Policy Rate to 15 percent in 2022 due to inflationary pressures***

On the money market, interest rates generally trended downwards over the review period. The 91-day and 182-day Treasury bill rates declined to 12.51 percent and 13.19 percent respectively in December 2021, from 14.09 percent and 14.12 percent, respectively in December 2020. Similarly, the rate on the 364-day instrument decreased to 16.57 percent from 16.99 percent over the same period.

The BoG hiked its policy rate by 100bsp to 14.5% from 13.5% in the last MPC meeting in November 2021 with the committee sighting elevated inflationary risk as the basis of the monetary tightening.

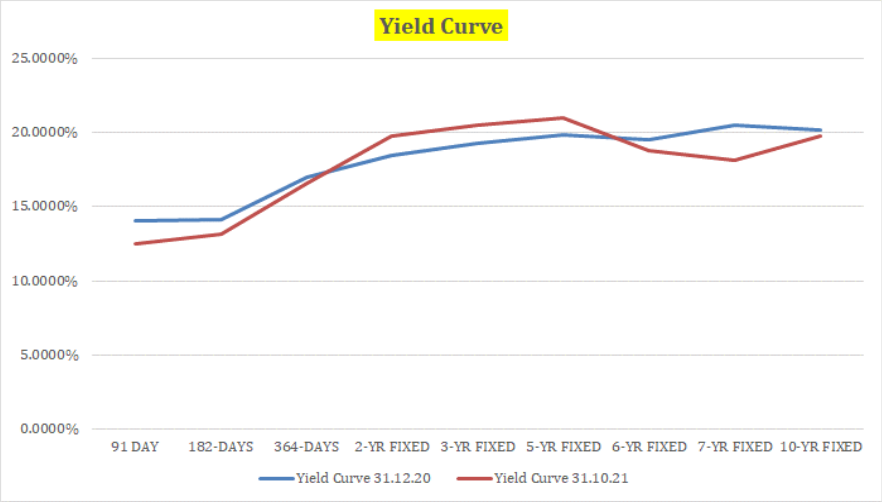
The interbank market rate inched up marginally to 12.70% in the month of December from 12.68% in November largely due to liquidity squeeze on the interbank market and the hike in the MPC rate in November by BoG. The interbank rate started the year at 13.56% and by the end of 2021 it was trading at 12.70% a reduction of almost 1%.

Fig 8: Interest rates



Source: Bank of Ghana/ GCB Research

Fig 9: Yield Curve



Source: Bank of Ghana/ GCB Research

Looking ahead, inflation will remain elevated in 2022, thus incentivising another rate hike. This reflects sustained high fuel prices (we forecast Brent crude will average USD72.0/bbl in 2022, up from USD71.5/bbl in 2021), and higher import costs due to a weakening cedi (we forecast the currency weakening to an average of GHS6.34/USD in 2022). Moreover, the BoG will remain concerned about upside inflationary pressures stemming from rising government spending, and continuing global supply challenges. A further factor influencing Ghanaian monetary policy in 2022 will be the US Federal Reserve (Fed). We expect the Fed to hike its funds rate target range by 25bps in response to rising inflation, which we expect to remain higher and stickier than previously expected. This will put pressure on the BoG to maintain Ghana's interest rate differential with the US, with the view to stemming capital outflows and supporting the currency. Risks to the outlook are tilted towards a larger interest rate hike by the BoG on the following condition. Should oil prices trend higher due to Omicron, transport inflation would accelerate further, pushing up headline price growth and prompting the central bank to implement a larger increase to its benchmark policy rate. Therefore, should price pressure persist as anticipated, our expectation is for a further hike in the policy rate to 15% in the near term.

Furthermore, we forecast interest rates on the money market to be relatively stable at the short end of the market in 2022 with the 91-day, 182-day and 364-day bill projected to inch up marginally in the short term.

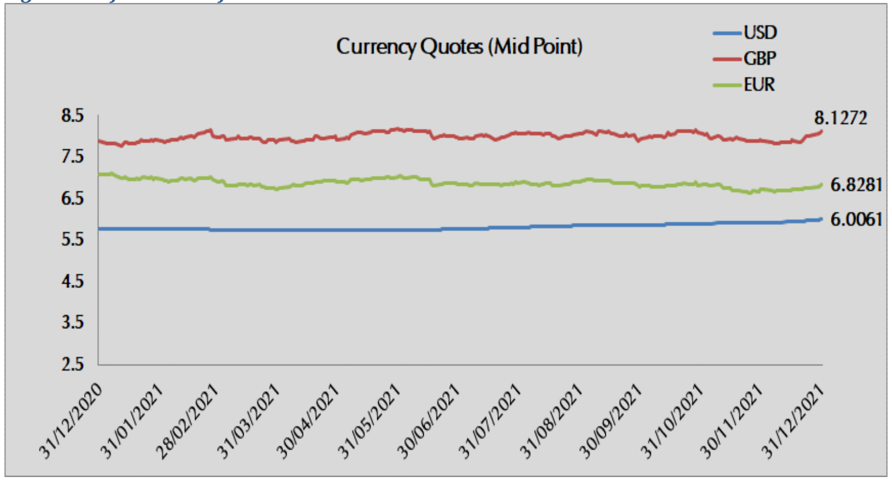
Currency- ***Ghanaian Cedi to Weaken Slightly in 2022 due to current account pressure amid a widening deficit - driven by a sharp increase in imports as private consumption and fixed investment growth accelerates.***

The cedi came under pressure in the second half of the year especially in the last quarter due to demand pressures by traders importing goods for the festive season as well as capital flow reversals by portfolio investors on the bonds market and corporate demand. The strong reserve position however provided some buffers for the local currency despite pressures in fourth quarter.

The cedi depreciated against the dollar, GBP and EUR by 1.5%, 2.7% and 1.4% respectively in the month of December 2021. As at the end of 2021, the cedi has seen a cumulative depreciation of

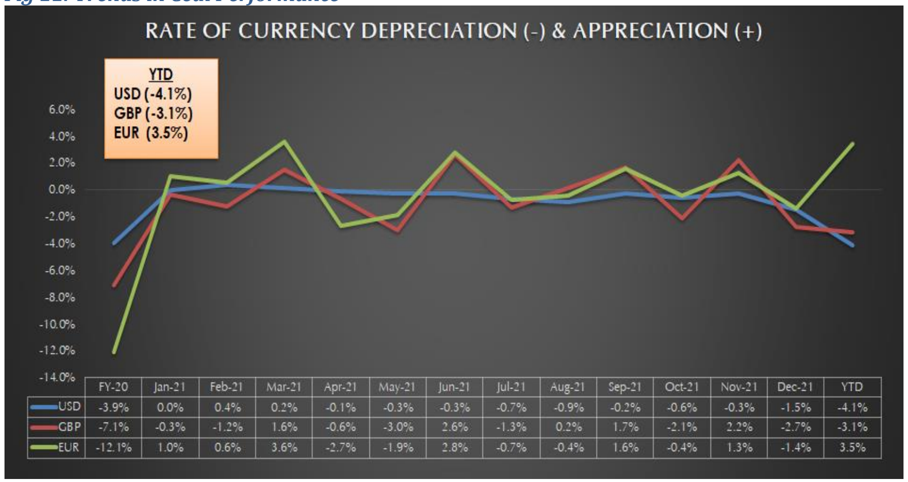
4.1% and 3.1% against the dollar and GBP respectively. It however appreciated by 3.5% against the EUR.

Fig 10: Performance of the Cedi



Source: Bank of Ghana/ GCB Research

Fig 11: Trends in Cedi Performance



Source: Bank of Ghana/ GCB Research

As at the end of December 2021, the cedi was trading at GHS6.0031/6.0091, GHS8.1228/8.1315 and GHS6.8247/6.8315 per the dollar, GBP and EUR respectively on the interbank market.

Table 3: Depreciation/Appreciation (%)

	FY-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	YTD
USD	-3.9%	0.0%	0.4%	0.2%	-0.1%	-0.3%	-0.3%	-0.7%	-0.9%	-0.2%	-0.6%	-0.3%	-1.5%	-4.1%
GBP	-7.1%	-0.3%	-1.2%	1.6%	-0.6%	-3.0%	2.6%	-1.3%	0.2%	1.7%	-2.1%	2.2%	-2.7%	-3.1%
EUR	-12.1%	1.0%	0.6%	3.6%	-2.7%	-1.9%	2.8%	-0.7%	-0.4%	1.6%	-0.4%	1.3%	-1.4%	3.5%

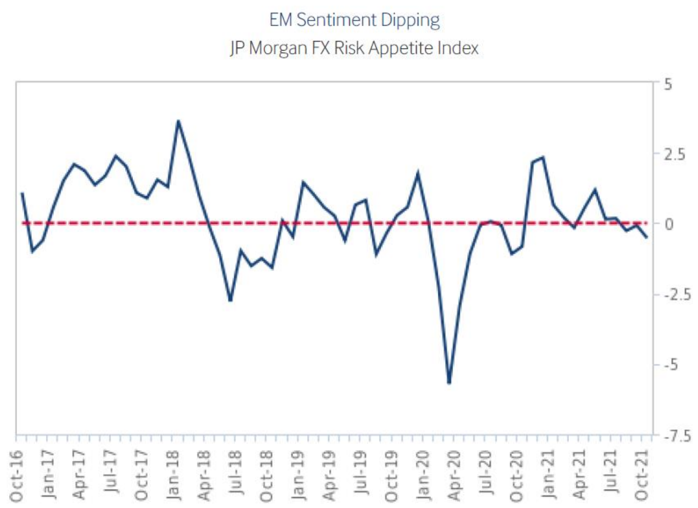
Source: Bank of Ghana/ GCB Research

In the short term, our expectation is for the Ghanaian cedi to weaken slightly. We believe that subdued risk appetite will persist over the short-term horizon amid a stable outlook for the USD, which we expect to trade sideways in the coming months as a result of weakening investor appetite for Emerging Market (EM) assets. Risk-off sentiment has risen in recent months, as indicated by the declining JP Morgan Risk Appetite Index, which fell below the neutral threshold of zero in August, falling further to -0.5 in the last week of October (see Fig 12 below). This reflects investor concerns around low Covid-19 vaccination rates in EMs, and resulting headwinds to the economic recovery.

Also, concerns regarding Ghana's wide fiscal deficit and growing public debt will exacerbate the impact of these trends on the cedi. Latest data published by the Bank of Ghana (BoG) indicate that total public debt rose from 68.1% of GDP in January 2021 to 77.8% in September, reflecting higher borrowing to cover the government's substantial budget shortfall. Mounting fiscal pressure caused by this debt load has added to weakening sentiment towards Ghana, and has been highlighted by bond yields rising more sharply than for peer economies in Sub-Saharan Africa. In addition, rising dollar demand will contribute to the downward pressure on the cedi. After rising by a modest 2.3% y-o-y in Q221, import growth accelerated sharply to 26.2% y-o-y in July as an easing of social distancing restrictions facilitated a further normalisation of consumer and business activity. We expect import growth - and thus demand for USD - to remain elevated in the coming months as the domestic economic recovery gathers momentum, facilitated by further progress on vaccinations.

We expect the cedi to weaken mildly further over our long-term forecast horizon, depreciating by 5.3% over the course of 2022 to **GHS6.34/USD** by the end of the year. Current account pressure will increase amid a widening of the deficit - from a forecast 2.7% of GDP in 2021 to 2.9% in 2022 - driven by a sharp increase in imports as private consumption and fixed investment growth accelerates. The resulting uptick in demand for USD will be the main driver of cedi depreciation in the coming quarters, although some risk-off sentiment will likely persist, and also weigh on the currency, at least through H122.

Fig 12: JP Morgan Fx Risk Appetite Index



Note: Values above/below 0 signal risk-on/risk-off. Source: JP Morgan, Bloomberg

Public Borrowing- ***Government borrowed about GHS16.1 billion in the last quarter of 2021.***

In the month of December 2021, the Government accepted total bids of GHS6.4 billion of bills and notes as against a total budget of GHS5.9 billion resulting in a deficit of GHS279 million. For Q4-21, the Government accepted total borrowings of GHS16.1 billion as against a target GHS21.2 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 4: Bids Accepted for GoG Bills, December-2021 (GHS M)

Date	91-days	182-days	364-days	2-years	3-years	5-yers	6-yers	7-yers	20-yers	Total
06/12/2021	977	95		1,686						2,759
13/12/2021	560	167	54							780
20/12/2021	870	186	90			924				2,070
27/12/2021	441	99								541
										-
Actual	2,849	547	143	1,686	-	924	-	-	-	6,149
Budget	3,300	620	450	750				750		5,870
Diff	451	73	307	(936)	-	(924)	-	750	-	(279)

Source: BoG/GCB Research

Table 5: Bids Accepted for GoG Bills, Q4-2021 (GHS M)

	Oct	Nov	Dec	Total
91-Days	3,078	3,707	2,849	9,634
182-days	552	659	547	1,758
1-year	169	413	143	725
2-years	-	361	1,686	2,047
3-Yrs	963		-	963
5-Yrs			924	924
7-Yrs				-
10-Yrs				-
20-Yrs				-
Total	4,762	5,140	6,149	16,051

Source: BoG/GCB Research

External Sector Outlook – ***Ghanaian Current Account to Remain in Deficit in 2022***

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 were estimated at 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.

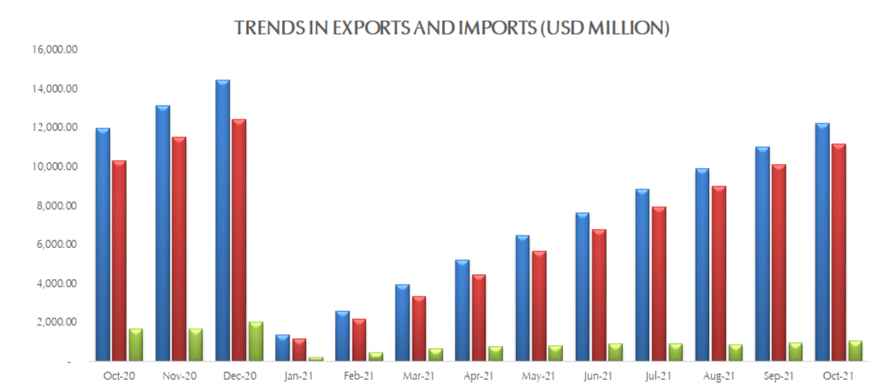
The capital and financial account recorded a surplus of US$3.7 billion, stemming mainly from higher foreign direct investments, portfolio flows, and the IMF SDR allocation. These flows were more than sufficient to finance the current account deficit resulting in an overall balance of payments surplus 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.

Gold exports as at the end of October 2021 stood at US$4,215.8 million (US$5,729.6 million in October, 2020) whilst Crude Oil exports amounted to US$3,192.0 million (US$2,407.6 million in October, 2020). That for Cocoa beans and products came in at US$2,411.4 million (US$1,815.0 million in October, 2020).

On the imports side, oil imports were US$2,110.9 million as at October 2021 (US$1,890.5 million in October, 2020) and non-Oil imports totalled US$9,063.5 million (US$8,775.1 million in October, 2020).

Fig 13: Trends in Exports and Imports



	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	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	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	1,669.00	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/ GCB Research

We expect Ghana's current account deficit to widen to 2.9% of GDP in 2022. Although exports will rise as a result of increased production of gold and cocoa, this will be partially offset by stronger growth in imports due to an acceleration in private consumption and fixed investment. We believe that private consumption growth will rise from a forecast 3.8% in 2021 to 4.7% in 2022, and that investment growth will increase from 3.5% to 4.2%, as the inoculation programme gathers pace. This will facilitate the relaxation of remaining social distancing rules, and a further normalisation of business and consumer activities. As a result of significantly higher imports of consumer, capital and intermediate goods, we see the trade surplus narrowing further from a forecast 2.5% of GDP in 2021 to 1.2% in 2022.

Meanwhile, after increasing by 13.5% y-o-y in H121, according to BoG data, we expect primary income outflows to continue to rise. This will be largely due to the increasing cost of servicing Ghana's external debts amid further public borrowing- and we thus expect Ghana's primary income deficit to widen from a forecast USD3.2bn in 2021 to USD3.5bn in 2022 (4.2% of GDP).

That said, the services deficit will narrow in 2022. We expect visitor arrivals to grow by 25.1% to 780,900 in 2022, bolstering services receipts and contributing to the services deficit narrowing to 5.3% of GDP in 2022. However, tourism numbers will remain well below 2019 levels and this, together with stronger demand for imported services, will ensure a fairly large services deficit (USD4.3bn) persists.

Rising foreign reserves and rebounding investment inflows will bolster the financial account, and help to cover the current account deficits in 2021. We forecast that Ghana's stock of foreign reserves will rise from USD8.6bn in 2020 to USD12.1bn in 2021, and USD12.7bn in 2022, partly reflecting fresh IMF support (in the form of additional Special Drawing Rights) and USD3.0bn Eurobond issuance in April 2021. Direct investment rose sharply in H121, and we expect this trend to continue in 2022 as mining companies invest in production capacity. Meanwhile, portfolio inflows will strengthen in 2022 on the back of an expected hike by the central bank, which will improve Ghana’s real interest rate differential with developed markets.

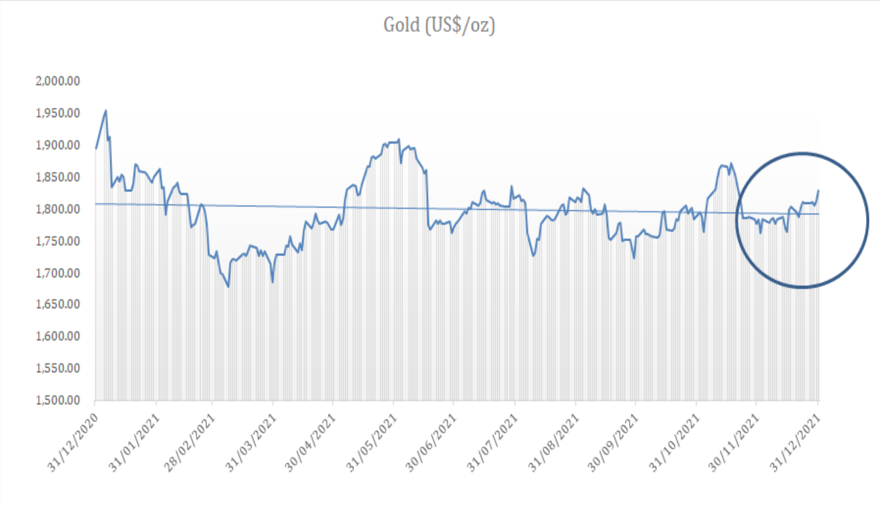
Ghana's current account position will be stronger in the coming years, as exports rise on the back of growing global demand for commodities and as the country's non-commodity exports sectors continue to develop. Import demand will also likely see an uptick, but increasing local production will reduce reliance on imported consumer and capital goods in the medium-to-long term, thus tempering the impact on Ghana's current account deficit. Ghana's exchange rate stability will improve as a consequence.

03 International Commodities Market

Gold-*The direction of Monetary policies-largely going to be influenced by inflation, bond yields as well as Covid and the direction of global economic growth will be the key factors driving the direction of gold prices*

International prices of the three major export commodities reflected mixed trends in the year 2021. Gold prices declined by 3.5% percent to average US$ 1,799.81 per fine ounce in 2021, due to pressure from the strong US dollar and rising US Treasury yields. Gold started the month of December trading at US$1,784.30/Oz and as at the end of the month it was trading at US$1,828.60/Oz up by 2.9% compared to the month of November. The maximum price for the year 2021 stood at US$1,954.40/Oz and the minimum price was US$1,678.00/Oz, averaging US$1,799.81/Oz.

Fig.14: Gold



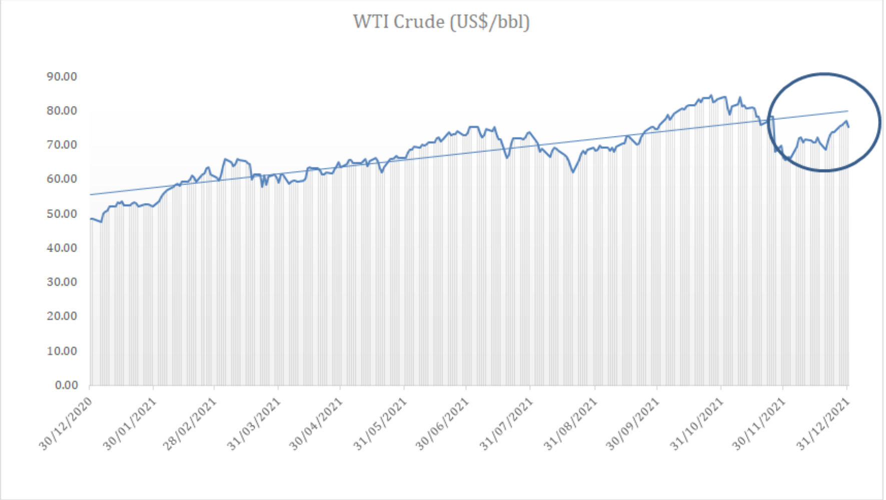
Source: Bloomberg Commodities

In the outlook, Gold has been on the back foot since the beginning of the year, as the minutes released from the U.S. Federal Reserve meeting signalled a hawkish stance amid surging COVID-19 cases. The Fed released the minutes from its December meeting on Wednesday, which signalled that the central bank is likely to hike interest rates quicker than expected. The minutes also said the Fed could accelerate the pace of the bank's asset tapering to calm high inflation. On the COVID-19 front, the number of new cases continued to surge with the rolling seven-day average number of new COVID-19 cases hitting 540,000 in the U.S. on 04/01/2022. Hospitalizations of COVID-19 patients in the U.S. have also risen 45% in the first week of the new year and were at 111,000, a figure last seen in January 2021. Also likely to supress gold prices for 2022 is possible surges in bond yields. Gold was steady after posting its biggest drop in six weeks in early part of January 2022 as bond yields surged, with investors bracing for monetary policy tightening in 2022. Even though the Ten-year Treasuries had the worst start to a year in more than a decade, yields saw an increase by 12 basis points on 3/01/2022, the largest first-day jump since 2009, according to Bloomberg data. Meanwhile, the S&P 500 Index closed at a record high on risk-on sentiment. Bullion fell last year in its biggest annual decline since 2015 as central banks started to dial back pandemic-era stimulus to fight inflation. On the flipside, support for gold this year would come from how devastating Covid especially the omicron and other variant that may arrive would affect global economies and its impact on global economic growth. Investors will always turn to gold as a safe-haven asset as and when rising numbers of COVID-19 cases globally leads to some countries tightening restrictive measures short of a lockdown. Therefore, in 2022, monetary policies-largely going to be influenced by the direction of inflation, the direction of bond yields as well as Covid and the direction of global economic growth will be the key factors on the radar of investors' which will likely play a pivotal role in the direction of the price of gold. Consequently, our forecast is for gold to end the year 2022 at US$ **1,809.50.**

Crude Oil- ***Oil Prices to trade higher in 2022 due to Tighter Market***

Crude oil prices have remained bullish in 2022 on account of OPEC+ production cuts which has led to steady draws on global oil inventories. The price of crude oil went up by 55.0 percent in 2021 to average US$68.06 per barrel. WTI crude oil started the month of December at US$65.57/bbl and as at the end of the month it was trading at US$75.21/bbl indicating an increase of 13.6% compared to November. The maximum price for 2021 was US$84.65/bbl and the minimum price was US$47.62/bbl bringing the average price to US$68.06/bbl.

Fig 15: Crude Oil



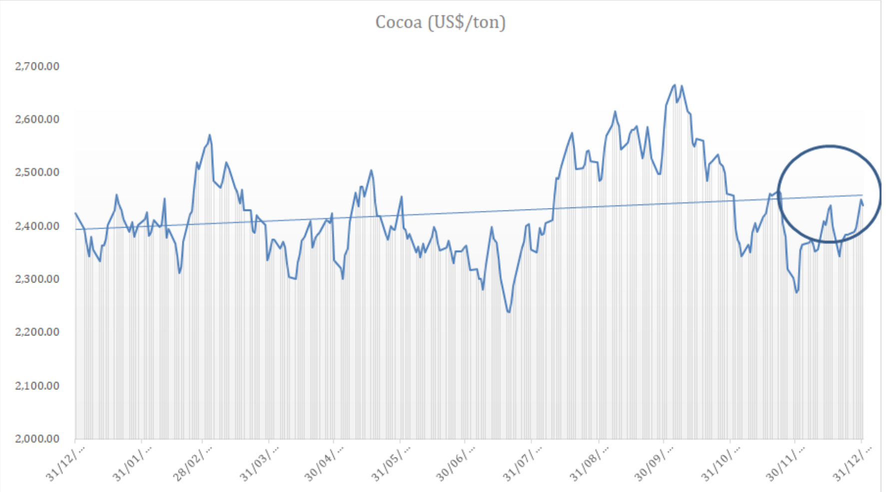
Source: Bloomberg Commodities

In the outlook, Oil is trekking higher as global supplies are on track to be tighter than previously expected amid easing fears over the omicron variant's hit to global demand. Futures in New York rose 1.2% while Brent crude settled at $80 a barrel for the first time since late November as OPEC+ stuck to its plan to lift output. Benchmark West Texas Intermediate crude reached a session high that was the strongest since November 26. With demand largely withstanding the omicron variant, the OPEC+ producer group on 04/01/2022 approved a 400,000 barrel-a-day increase in production scheduled for February. Most analysts are cutting estimates for a surplus in the first quarter of 2022 and beyond, predicting weaker supply growth from rivals. Prices are heading higher after OPEC+ showed they are more confident that the global crude demand outlook will only take a limited hit, said Ed Moya, Oanda's senior market analyst for the Americas. Also, it appears geopolitical risks such as the Russia-Ukraine tensions, and the lengthy Iran nuclear deal revival talks could also support higher oil prices in 2022. The overall supply-demand backdrop is looking better for OPEC+. The group's production increases are likely to be less than the agreed levels as some members struggle. Russia failed to raise output last month while production in OPEC member Libya is also not meeting expectation. The market structure remains in a bullish backwardation pattern, which indicates continued supply tightness. Hence the biggest challenge for the year would be the actual implementation of the theoretical rise in production as more and more producers start to struggle. Therefore, the expectation is for Brent to stay in the $80-a-barrel range for a while, unless risk appetite deteriorates or if the stock market sells off. WTI will likely consolidate around the $77 level. The OPEC+ Joint Technical Committee, which analyses the market on behalf of ministers, sees a surplus of 1.4 million barrels a day in the first three months of 2022, about 25% less than it estimated a month ago, according to a report seen by Bloomberg. On the basis of the above demand and supply factors we forecast the price of WTI Crude Oil to end 2022 at **US$75.02/bbl** and Brent Crude at **US$ 79.56/bbl.**

Cocoa- ***Cocoa Prices to be pressured due to Improved Crop Prospects from the top producers in 2022.***

The price of cocoa increased marginally by 0.62 percent to trade at average price of US$2,426.81/ton in 2021 due to ample supply from major cocoa producers. Cocoa began the month of December trading at U$2,281.29/ton and by the end of the month it was trading at US$2,439.31/ton. The highest price for cocoa recorded for the year 2021 was US$2,665.53/ton whilst the lowest price recorded was US$2,238.31/ton. The average price for the year stood at US$2,426.81/ton.

Fig 16: Cocoa



Source: ICCO

In the outlook, Cocoa prices are expected to trade under pressure this year due to favourable conditions in top producing countries which is expected to boost crop yields in the 2021/22 season. The ideal growing conditions in West Africa is seen as a bearish factor for cocoa. Recent surveys show cocoa farmers in the Ivory Coast and Ghana are optimistic about their crops as ideal weather and adequate rain in West Africa should boost the yields of the West African cocoa mid-crop, the smaller of two annual crops harvested in the first half 2022. Meanwhile, the International Cocoa Organization (ICCO) in its recent report revised its estimates higher for both demand and production for 2021/2022 cropping season. The report showed that demand for cocoa would go up by 4.9 million tonnes due to increased use of beans whereas production would rise at a faster 5.2 million tonnes due to better weather conditions in major producing countries. 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 for 2022. We therefore forecast the price of cocoa to close 2022 at **US$2,510.76/ton**.

04 Business Impact- Key Sectors for Targeting and Opportunity to invest in long term attractive Govt. Securities.

Trade Transactions on the back of Import trade

Our expectation is for the stronger growth in imports in 2022 due to an acceleration in private consumption and fixed investment as economic activity improves to drive trade transactions. This presents a great opportunity for the Bank to intensify its trade financing activities for 2022 to finance the trade needs of our corporate/commercial banking customers as well as prospective customers through Letters of Credit (LCs). This we believe will generate deposits as well as off-balance sheet revenues for the Bank in 2022.

Key Sectors for Targeting

The third 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 6.6% in September compared to 5.1% in Q2-21. Non-oil GDP, for the same period, grew by 8.6%. This reflects the sharp rebound experienced in the Education sub-sector which grew by 24.2 percent; supported by equally stronger growth of 20.5 percent in Heal & Social Work, 17.0 percent in ICT, and 9.7 percent in trade. 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 advise business managers as well as Relationship Managers to be weary of inherent risk in certain sectors of the economy due to the pandemic.

Opportunity to Invest in Long Term Attractive Govt. Securities

With a huge fiscal gap and the appetite for government to borrow domestically to fund the gap, coupled with its debt management strategy of prolonging its debt life cycle, the long end of the money market has continued to remain attractive with high yields. This is forecast to persist in 2022 as government borrow to fund its projected deficit of 7.4% of GDP. Furthermore, with inflation expected to be high in the first half due to supply side pressures, our projection is for the BoG to hike rates to about 15% this year to control inflation. This will definitely see rates increasing marginally in the debt market with securities coming in with attractive yields. This provides an opportunity for the Treasury Department to lock in some investible funds to generate the necessary returns for the Bank.

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

On the global scale, the global economy is projected to grow at 5.9 percent in 2021 and 4.9 percent in 2022. In spite of the positive outlook to global growth in 2022, there are a lot of downside risk to the outlook such as Omicron, a sustained rise in inflation, supply-side factors weighing on global trade flows and the slow rollout of coronavirus vaccines especially in developing economies.

On the domestic front, growth continue to recover from the impact of the pandemic. Latest data by the Ghana Statistical Service point to continued recovery in economic activity. We expect that economic growth will accelerate to 4.8% in 2022, bolstered by a stronger recovery in consumer spending, rising investment and solid export performance, notably by the gold sector.

On the currency side, we expect the cedi to weaken slightly to an average of GHS6.34/USD in 2022. Over the long term, rising demand for USD amid accelerating import growth, and weaker investor sentiment - partly driven by Ghana's wide fiscal deficits and rising public debt - will continue to weigh on the currency.

The central bank will continue with gradual monetary policy tightening in 2022, and hike the benchmark interest rate by a further 50 basis points to 15.00% by end-2022. Despite tax reforms, government revenues will continue to underperform in the coming quarters, and be the main driver of the fiscal deficit in 2022.

We believe that government will focus on its policy priorities- addressing the country's wide fiscal deficit, mounting debt and accelerating the vaccination programme to ensure economic activity thrives to propel growth in 2022.