ECONOMIC UPDATE: REVIEW OF MONETARY POLICY REPORT

Monetary Policy Rate (MPR) Maintained at 14.5% **31/01/2022**

Introduction

On Monday 31st January 2022, the Monetary Policy Committee (MPC) of the Bank of Ghana concluded its 104th regular meeting. The Committee decided to maintain the policy rate at 14.5% citing the following reasons:

- ✓ The revised quarterly GDP growth numbers affirms the strength of the post-Covid recovery.
- ✓ Business sentiments are increasingly becoming optimistic and the information content derived from the Purchaser's Managers Index all point to some optimism among industry players.
- ✓ Private sector credit growth is steadily picking up but remains negative in real terms. The expectation is for the banks to continue providing new advances to the economy to support private sector credit growth and boost economic activity.
- ✓ All the core inflation measures, and inflation expectations have increased, which point to heightened underlying inflation pressures. The latest forecast shows that inflation would likely remain above target in the near-term, driven by both external and domestic factors, and only return to target in about four-quarters ahead.
- ✓ The Committee did indicate that this was envisaged that is why it raised the policy rate in November 2021 to contain the inherent aggregate demand pressures likely to drive prices in the outlook.
- ✓ The Committee is of the view that the dynamics associated with the November 2021 policy rate hike are yet to be fully transmitted and expects the decisive implementation of the fiscal correction measures, especially the 20 percent cut in expenditure to help moderate the upside risks to the inflation outlook.
- ✓ The Committee specified that they will continue to monitor the impact of the above policy measures and as needed call an extraordinary meeting to re-assess the inflation outlook over the forecast horizon and take the necessary policy decisions accordingly.
- ✓ Therefore, on the basis of the outlook for growth in 2022 and the increase in the policy rate in November to contain the inherent aggregate demand pressures likely to drive prices, the Committee decided to keep the policy rate unchanged at 14.5 percent.

1. Global Developments

- ✓ The global growth momentum moderated somewhat in the last quarter of 2021, owing to continued supply chain bottlenecks and renewed concerns about the economic impact of the more transmissible Omicron COVID-19 variant.
- ✓ The latest release of the World Economic Outlook Update by the International Monetary Fund shows a downward revision of global growth projections for 2022 from 4.9 percent to 4.4 percent, due to growth downgrades for the United States and China.
- ✓ The forecast is contingent on supportive financing conditions and evolution of the COVID-19 pandemic amid new waves of infection and mutations of the virus.
- ✓ Global price pressures intensified in 2021, primarily due to sharp increases in energy prices, rising demand pressures, and the persistent supply chain disruptions.
- ✓ As a result, headline inflation across several Advanced and Emerging Market economies rose above targets. These price trends have triggered reversals of the accommodative policies put in place to stimulate recovery from the pandemic.

- ✓ In the United States, the Federal Reserve Bank has continued with the tapering of its asset purchase programme and signalled its intention to bring forward planned rate hikes in 2022 to address rising underlying inflationary pressures.
- ✓ Similarly, policymakers in several emerging market economies continue to stay on the path of policy tightening in response to rising inflation.
- ✓ Beginning in the last quarter of 2021, emerging market economies such as Chile and Brazil, have raised policy rates to contain rising inflation, while others have signalled their intention to raise policy rates if price pressures persist much longer than anticipated.
- ✓ Global financial conditions began tightening in the second half of 2021 and this is expected to tighten further in 2022.
- ✓ The expectation of higher policy rates by major central banks has driven up long-term bond yields. Spreads on sovereign bonds have widened, especially for Emerging Markets (EMs) and frontier economies with weak fundamentals.
- ✓ Additionally, capital flows to EMs and developing economies have become volatile due to expectations about higher US interest rates and the strengthening of the US dollar.

Looking ahead, the global economy enters 2022 in a weaker position than previously expected. As the new Omicron COVID-19 variant spreads, countries have re-imposed mobility restrictions. Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation than anticipated, notably in the United States and many emerging market and developing economies. The ongoing retrenchment of China's real estate sector and slower-than-expected recovery of private consumption also have limited growth prospects. Global growth is expected to moderate from 5.9 in 2021 to 4.4 percent in 2022 according to the IMF, largely reflecting forecast markdowns in the two largest economies-USA and China. A revised growth for the USA reflects the uncertainty of the Build Back Better fiscal policy package, earlier withdrawal of monetary accommodation, and continued supply shortages. In China, pandemic-induced disruptions related to the zero-tolerance COVID-19 policy and protracted financial stress among property developers have induced a downgrade in China's growth rate for 2022. Global growth is expected to slow to 3.8 percent in 2023. This forecast is conditional on adverse health outcomes declining to low levels in most countries by end-2022, assuming vaccination rates improve worldwide and therapies become more effective.

Also, elevated inflation is expected to persist for longer than envisioned with ongoing supply chain disruptions and high energy prices continuing in 2022. Assuming inflation expectations stay well anchored, inflation should gradually decrease as supply-demand imbalances wane in 2022 and monetary policy in major economies responds.

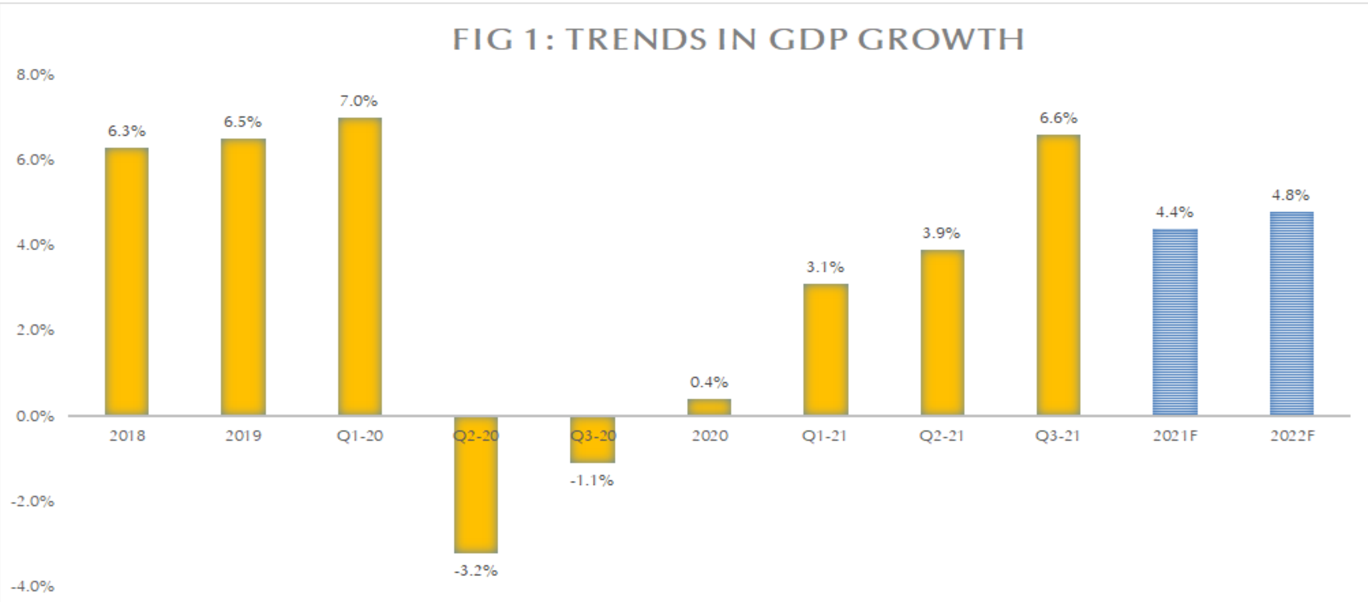
Risks to the global outlook is tilted to the downside. The emergence of new COVID-19 variants could prolong the pandemic and induce renewed economic disruptions. Moreover, supply chain disruptions, energy price volatility, and localized wage pressures mean uncertainty around inflation and policy paths is high. As advanced economies lift policy rates, risks to financial stability and emerging market and developing economies' capital flows, currencies, and fiscal positions—especially with debt levels having increased significantly in the past two years—may emerge. Other global risks may crystallize as geopolitical tensions remain high, and the ongoing climate emergency means that the probability of major natural disasters remains elevated.

With the pandemic continuing to maintain its grip, the emphasis on an effective global health strategy is more salient than ever. Worldwide access to vaccines, tests, and treatments is essential to reduce the risk of further dangerous COVID-19 variants. This requires increased production of supplies, as well as better in-country delivery systems and fairer international distribution. Monetary policy in many countries will need to continue on a tightening path to curb inflation pressures, while fiscal policy—operating with more limited space than earlier in the pandemic—will need to prioritize health and social spending while focusing support on the worst affected. In this context, international cooperation will be essential to preserve access to liquidity and expedite orderly debt restructurings where needed.

2. Domestic Economy

Real Sector Developments

- ✓ On the domestic stage, the economy continued its strong recovery from the COVID-related economic downturn.
- ✓ The latest Ghana Statistical Service update showed that Real GDP growth for the first three quarters of 2021 averaged 5.3 percent, compared with an average contraction of 0.6 percent recorded in the same period of 2020.
- ✓ Similarly, non-oil GDP growth averaged 6.9 percent against a contraction of 0.3 percent over the same comparative period. Overall, GDP growth for 2021 is projected to exceed the target of 4.4 percent.
- ✓ The BoG's updated Composite Index of Economic Activity (CIEA) recorded an annual growth of 10.2 percent in November 2021, compared with 11.9 percent in the corresponding period of 2020. The key drivers of economic activity during the period were increased industrial production, consumption, exports, construction activities, and air-passenger arrivals.
- ✓ The BoG's latest confidence surveys conducted in December 2021 signalled mixed sentiments. While consumer confidence softened because of recent increases in ex-pump petroleum prices and the announcement of new tax measures in the 2022 budget, business sentiments, on the other hand improved.
- ✓ The improved business sentiments were driven by the achievement of short-term company targets and optimism about companies' growth prospects.
- ✓ In addition, the Ghana Purchasing Managers Index (PMI), which gauges the rate of inventory accumulation by managers of private sector firms and which measures dynamics in economic activity, increased for four consecutive months in the second half of 2021—a development which is consistent with the observation of a steady increase in economic activity.



Source: Ghana Statistical Service, GCB Research

For the outlook of the domestic economy, the Committee assessed that the revised quarterly GDP growth numbers affirms the strength of the post-Covid recovery. All the BoG's high frequency economic indicators have picked up significantly. Consumer confidence has however waned, on account of negative feedback from the significant increase in ex-pump petroleum price adjustments in the second half of the year and new tax measures announced in the context of the 2022 budget. Private sector credit growth is steadily picking up but remains negative in real terms. Their expectation is for the banks to continue providing new advances to the economy to support private sector credit growth and boost economic activity. The Committee expects that these favourable conditions will persist in 2022.

From our point of view, we expect the economy to strengthens in 2022 with growth accelerating 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. This will contribute to a stronger recovery in hiring, and thus an uptick in household incomes. Furthermore, 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.

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.

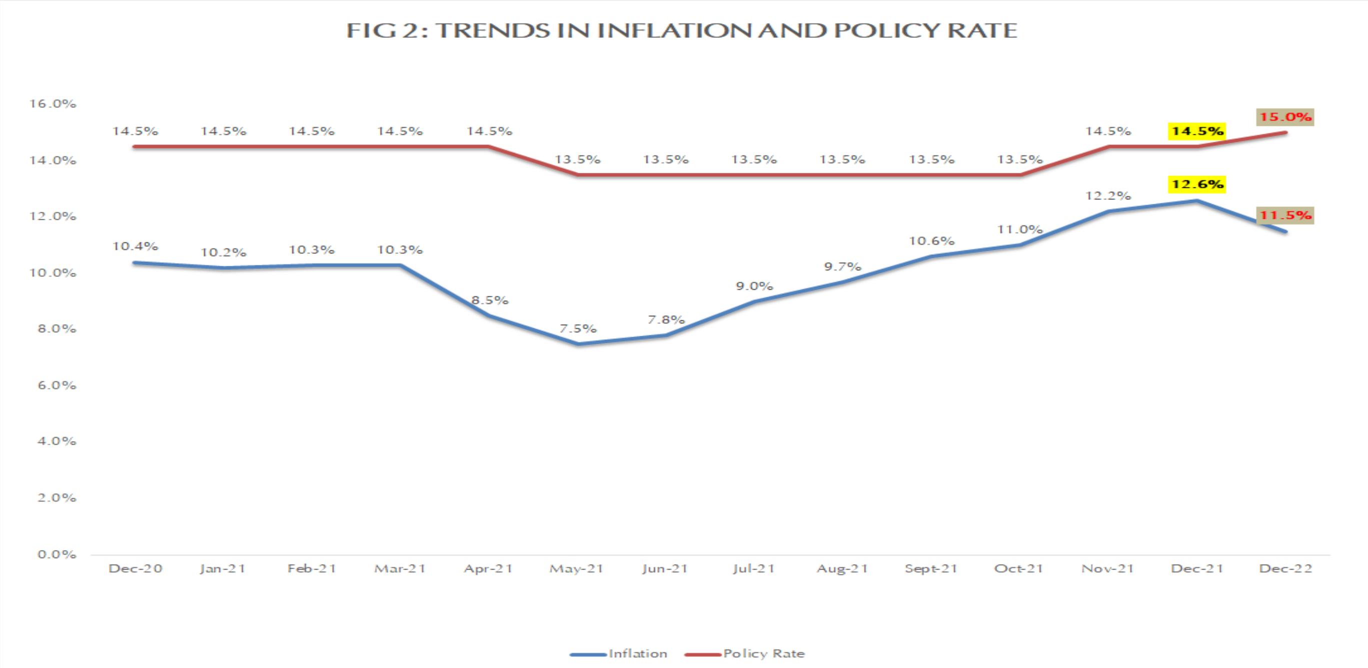
Overall, real GDP growth in Ghana will recover in the medium term, after slowing to an estimated 0.4% in 2020 as a result of the pandemic. We believe that growing investment into the manufacturing, technology, transport and services sectors will sustain growth in the coming years, as will a general recovery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

3. Price Developments

Inflation

- ✓ After falling to 7.5 percent in May 2021, inflation increased throughout the second half of the year, ending December 2021 at 12.6 percent.
- ✓ Non-food inflation went up from 9.2 percent in May 2021 to 12.5 percent in December 2021 while food inflation, over the same period rose sharply, moving from 5.4 percent in May 2021 to 12.8 percent in December 2021.
- ✓ The upward trajectory of inflation in the second half of 2021 reflected food supply challenges, rising crude oil prices, and some pass-through effects of exchange rate depreciation in the last quarter.
- ✓ At 12.6 percent for December 2021, headline inflation had moved outside the upper band (10 percent) of the medium-term target by 2.6 percent.
- ✓ In line with the increases in headline inflation, underlying inflationary pressures, measured across all the BoG's core measures of inflation, also increased over the period. The main core inflation measure, which excludes energy and utility, increased from 7.3 percent in May 2021 to 11.8 percent in December 2021.

✓ In addition, the weighted inflation expectations index, which captures inflation sentiments of consumers, businesses, and the financial sector, also picked up significantly in December 2021.



Source: Bank of Ghana, GCB Research

According to the Committee, headline inflation has remained above the upper band of the medium-term target of 8±2 percent since September 2021. Additionally, all the core inflation measures, and inflation expectations have increased, which point to heightened underlying inflation pressures. The BoG's latest forecast shows that inflation would likely remain above target in the near-term, driven by both external and domestic factors, and only return to target in about four-quarters ahead. The key risks to the inflation outlook include: rising crude oil prices and its transmission to ex-pump petroleum prices and transportation costs, rising global inflation, food price uncertainties, and the fiscal outlook. The Monetary Policy Committee envisaged this scenario when it raised the policy rate in November 2021 to contain the inherent aggregate demand pressures likely to drive prices in the outlook. The Committee acknowledged that the dynamics associated with the November 2021 policy rate hike are yet to be fully transmitted and expects the decisive implementation of the fiscal correction measures, especially the 20 percent cut in expenditure to help moderate the upside risks to the inflation outlook.

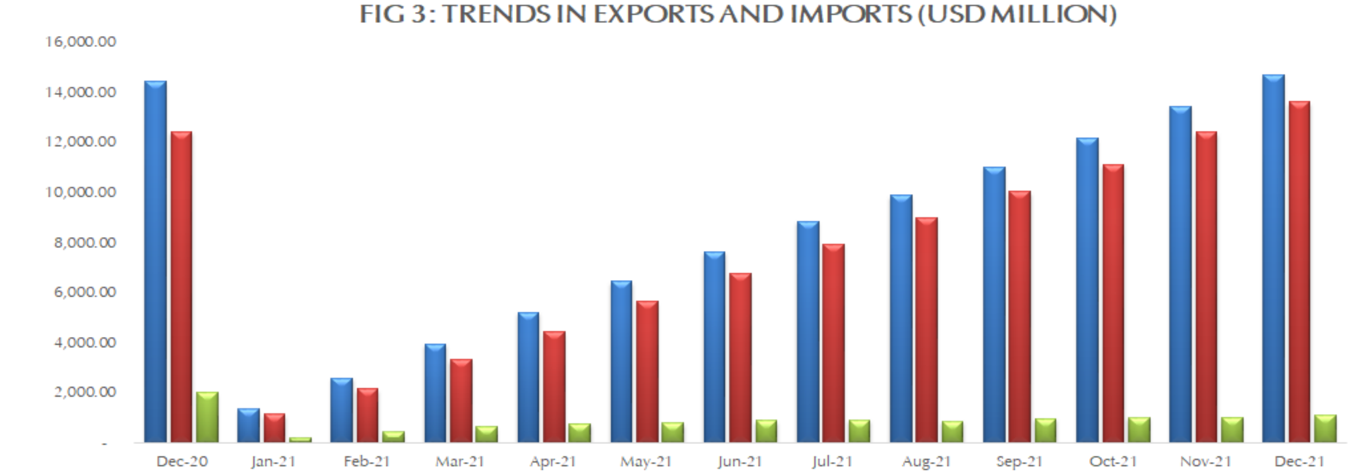
From our view point, we expect headline inflation rate to remain elevated in most parts of 2022, driven by supply-side price pressures (including rising global oil prices, logistical bottlenecks, and high utility and domestic food costs). On average, inflation will rise further (to 11.9%) in 2022 against 10.0% in 2021 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 11.5±2%. We forecast inflation to average about 12.5±2% in the first 3 months of 2022.

4. External Sector Developments

✓ Provisional trade balance for 2021 recorded a surplus of US$1.1 billion (1.6% of GDP) compared to a surplus of US$2.0 billion (2.8% of GDP) in 2020. The decline in the trade surplus was due mainly to increased imports as the economy rebounded.

- ✓ Total exports were estimated at US$14.7 billion in 2021, compared with US$14.5 billion in 2020. On a year-on-year basis, the lower total export growth of 1.8 percent was driven by a 25.2 percent contraction in gold receipts as production volumes declined by over one (1) million fine ounces during the year. Cocoa and crude oil receipts, however, grew by 20.3 percent and 35.6 percent respectively.
- ✓ Total imports, on the other hand, increased by 9.7 percent year-on-year to US$13.6 billion compared with US$12.4 billion. The growth in imports was attributed to a 43.8 percent growth in oil and gas imports. Of this, refined petroleum products increased by almost US$1 billion over the year reflecting the rebounding economy from the pandemic restrictions in 2020.
- ✓ The lower trade surplus, together with higher investment income outflows stemming from increased interest payments, and higher profits and dividend repatriation, resulted in a current account deficit of US$2.5 billion (3.3 percent of GDP) in 2021, higher than the deficit of US$2.1 billion (3.1 percent of GDP) recorded in 2020.
- ✓ The capital and financial account recorded a surplus of US$3.3 billion based on higher inflows from foreign direct investments, portfolio flows, and the IMF-SDR allocation.
- ✓ Significant inflows into the financial and capital account in 2021, more than offset the deficit in the current account, resulting in an overall Balance of Payments surplus of US$510 million compared with a surplus of US$377.5 million recorded in 2020.
- ✓ Gross International Reserves as at December 2021 stood at US$9.7 billion (equivalent to 4.4 months of import cover). This compares with a reserve position of US$8.6 billion (4.0 months of import cover) at the end of 2020. Gross Reserves have since increased to US$9.9 billion as at 28th January 2022.
- ✓ International commodity prices remained highly volatile during 2021, broadly reflecting the interplay of market forces.
- ✓ On a year-on-year basis, the average price of crude oil rose by 48.9 percent to US$74.8 per barrel in December 2021, due to moderated production levels by OPEC+ and sustained global demand, despite the spread of the Omicron variant.
- ✓ However, the average price of cocoa declined by 3.8 percent in year-on-year terms to trade at US$2,482.0 per tonne due to production shortfalls for the 2021/22 season.
- ✓ Gold prices also declined by 3.6 percent to average US$1,790.5 per fine ounce in December 2021.

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



	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Export	14,452.80	1,355.40	2,594.60	3,961.60	5,209.90	6,451.20	7,649.20	8,864.70	9,895.70	11,039.00	12,165.50	13,463.30	14,736.20
Import	12,437.40	1,135.40	2,161.90	3,329.20	4,431.20	5,650.80	6,762.40	7,941.90	9,022.20	10,059.00	11,144.40	12,435.70	13,628.70
Trade Balance	2,015.40	220.00	432.70	632.40	778.70	800.40	886.80	922.80	873.50	980.00	1,021.10	1,027.60	1,107.50

Source: Bank of Ghana

On the external sector, 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

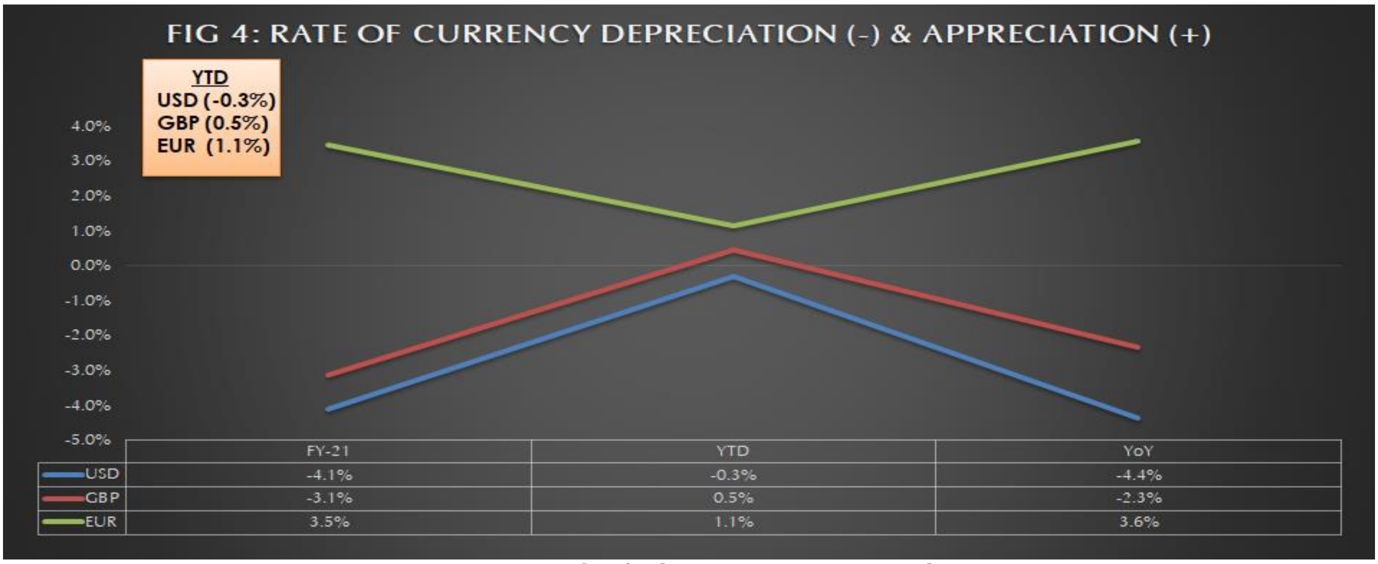
growth in imports due to an acceleration in private consumption and fixed investment. We believe that private consumption growth will rise from a forecast 3.8% in 2021 to 4.7% in 2022, and that investment growth will increase from 3.5% to 4.2%, as the inoculation programme gathers pace. This will facilitate 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 2.8% of GDP in 2021 to 1.2% in 2022.

Furthermore, our expectation is for 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 of 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% 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 persists.

Rising foreign reserves and rebounding investment inflows will bolster the financial account, and help to cover the current account deficits in 2022. We expect direct investment to rise 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.

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

- ✓ The strong reserve position provided some buffers for the local currency in 2021.
- ✓ Cumulatively, while the Ghana Cedi depreciated by 4.1 percent and 3.1 percent against the US Dollar and Pound Sterling, respectively in 2021, the Ghana Cedi appreciated by 3.5 percent against the Euro.
- ✓ In the same period of 2020, the Ghana Cedi recorded depreciations of 3.9 percent, 7.1 percent, and 12.1 percent against the US Dollar, the Pound Sterling, and the Euro, respectively.
- ✓ In the month of January 2022, the cedi depreciated by 0.3% against the cedi. It however appreciated by 0.5% and 1.1% against the GBP and the EUR respectively.



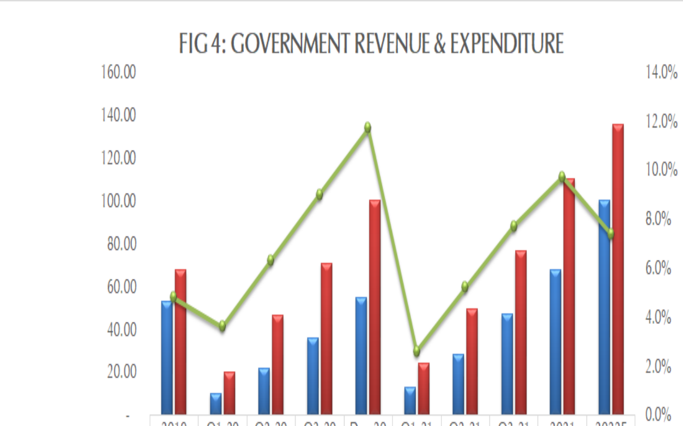
Source: Bank of Ghana & GCB Research.

The cedi weakened in the second half of 2021, as a result of increased demand for hard currency, driven by a recovery in Ghana's (structurally import-dependent) business activity. In a bid to stabilise the cedi, the BoG announced foreign exchange intervention action—with US$450m to be released via foreign-exchange forward auctions in the first quarter of 2022. Thus, we expect the currency to stabilise in the first half of 2022. Regardless, strengthening growth and domestic sentiment will reinforce import dependency—causing the cedi to depreciate by about 5.3% in 2022. The currency is expected to end 2022 at GH¢6.34:US$1 (from GH¢6.01:US$1 at end 2021) owing to Ghana's sustained current-account deficit.

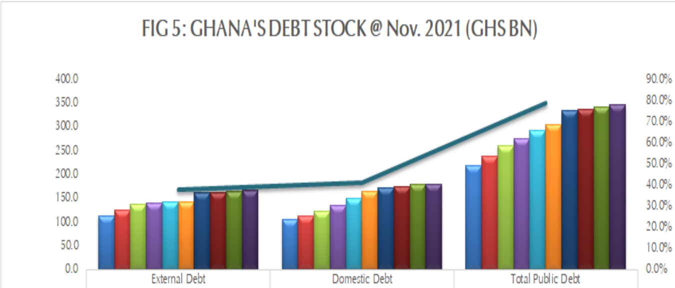
6. Fiscal Developments

Fiscal/Debt Situation

- ✓ Provisional data on budget execution for 2021 indicated an overall broad fiscal deficit (cash, excluding financial sector clean-up costs) of 9.7 percent of GDP, against the programmed target of 9.4 percent of GDP.
- ✓ The corresponding primary balance for the period was a deficit of GH¢8.9 billion (2.0 percent of GDP), against a deficit target of GH¢8.7 billion (2.0 percent of GDP).
- ✓ Over the year, total revenue and grants amounted to GH¢67.9 billion (15.4 percent of GDP), below the projected GH¢72.5 billion (16.7 percent of GDP).
- ✓ Total expenditure amounted to GH¢110.4 billion (25.1 percent of GDP), below the programmed target of GH¢113.8 billion (25.9 percent of GDP).
- ✓ These developments impacted the stock of public debt which increased to 78.4 percent of GDP (GH¢344.5 billion) at the end of November 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¢179.4 billion (40.8 percent of GDP), while the external debt was GH¢165.1 billion (37.6 percent of GDP).



	2019	Q1-20	Q2-20	Q3-20	Dec 20	Q1-21	Q2-21	Q3-21	2021	2022F
Revenues (GHS Bn)	52.97	10.35	22.01	36.30	55.10	12.80	28.30	47.20	67.90	100.50
Expenditure (GHS Bn)	67.67	20.06	46.35	70.90	100.10	24.30	49.61	76.50	110.40	135.60
Fiscal Deficit %	4.8%	3.6%	6.3%	9.0%	11.7%	2.6%	5.2%	7.7%	9.7%	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
Nov-21	165.1	179.4	344.5
% of GDP	37.6%	40.8%	78.4%

Source: Bank of Ghana.

In the outlook, the Committee indicated that even though budget implementation for 2021 remained fairly in line with expectations, fiscal and debt sustainability concerns regarding the budget for 2022 and implications for sustained fiscal consolidation efforts have triggered an unfavourable credit rating decision by Fitch Ratings which has spilled over to the external sector and may further exacerbate the already elevated inflationary expectations. Ghana's sovereign bond spreads have widened significantly and led to a de facto closure to the International Capital Markets with implications for financing of the budget. Fiscal policy has responded to these concerns with an announcement of a further 20 percent cut in expenditures in 2022. This fiscal policy measure will help to provide for some correction, avoid the opening up of macroeconomic imbalances, and further deepen the fiscal consolidation agenda. This should also shift the consolidation process away from a revenue-led one, to one which encapsulates both revenue and expenditure measures signalling stronger commitment to keeping the deficit under check. To the committee, a steadfast implementation of the proposed measures will be needed to safeguard stability, foster credibility and re-anchor inflation expectations. The expenditure cut has been well accepted in the bond markets and decisive implementation of this fiscal correction will significantly define the outlook and mitigate the rising risk premium, as debt stabilizes.

From our point of view, 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.

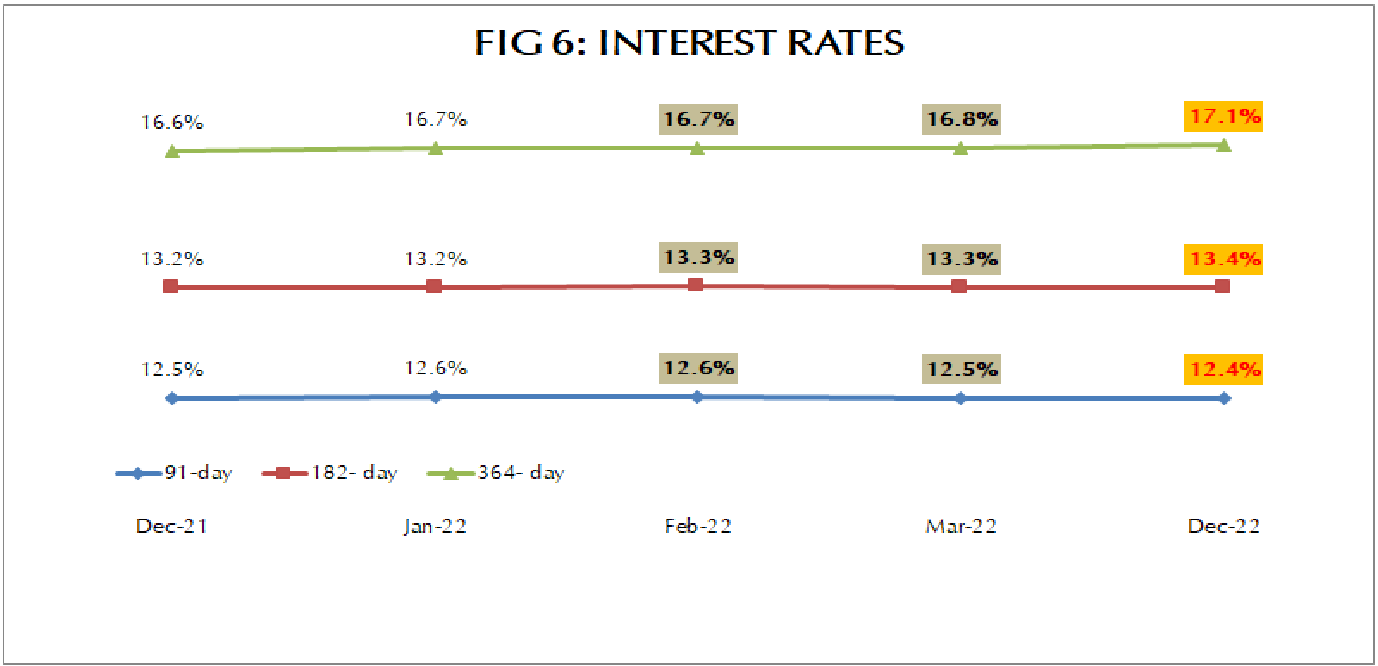
Meanwhile, expenditure will remain elevated in the coming quarters. The 2022 budget details increased allocations for public sector wages, procurement of goods and services, and transfers to other government entities. It also outlines a significant 28.8% hike in capital spending relative to planned 2021 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.

The government will remain heavily reliant on domestic borrowing in the near term, reflecting tightening external financing conditions. Ghana has borrowed a total of US$3bn in 2021 through the issuance of Eurobond. However, downside risks to future Eurobond issuances and accessibility stem from rising international bond yields in recent months (reflecting rising investor risk aversion). On the whole, we expect the public debt/GDP ratio to end 2022 at 83% in 2022 from an estimated

80%. This is however expected to shrink to about 70.8% in the medium term, in line with the narrowing deficit.

7. Monetary Developments and Debt Market

- ✓ The pace of growth in broad money supply (M2+) moderated significantly in December 2021, mainly driven by contraction in the Net Foreign Assets (NFA) of the depository corporations' sector, relative to an expansion in the Net Domestic Assets (NDA).
- ✓ Broad money supply (M2+) recorded an annual growth of 12.5 percent in December 2021 relative to a growth of 29.6 percent for the corresponding period of 2020.
- ✓ In terms of components, the observed moderation in M2+ growth was driven by lower growth in currency outside banks and total deposits.
- ✓ Reserve money recorded an annual growth of 20.0 percent compared with 24.9 percent due to contraction in the NFA of Bank of Ghana.
- ✓ On the money market, interest rates reflected mixed trends across the yield curve. The 91-day and 182-day Treasury bill rates declined to 12.49 percent and 13.19 percent respectively in December 2021, from 14.08 percent and 14.13 percent respectively, in December 2020.
- ✓ Similarly, the rate on the 364-day instrument decreased marginally to 16.46 percent from 16.98 percent over the same comparative period.
- ✓ Rates on the 2-year and 5-year bonds increased to 19.75 percent and 21.00 percent respectively, from 18.50 percent and 19.85 percent respectively, while rates on the 3-year, 6-year, 7-year and 10-year bonds broadly declined.
- ✓ The rates on the 15-year and 20-year bonds, however, remained unchanged at 19.75 percent and 20.20 percent respectively, over the same comparative period.
- ✓ The weighted average interbank rate declined further to 12.68 percent from 13.56 percent, induced by persistent structural liquidity on the interbank market.
- ✓ This transmitted to the retail end of the market, and average lending rates of banks declined marginally to 20.04 percent in December 2021 from 21.20 percent recorded in the corresponding period of 2020.

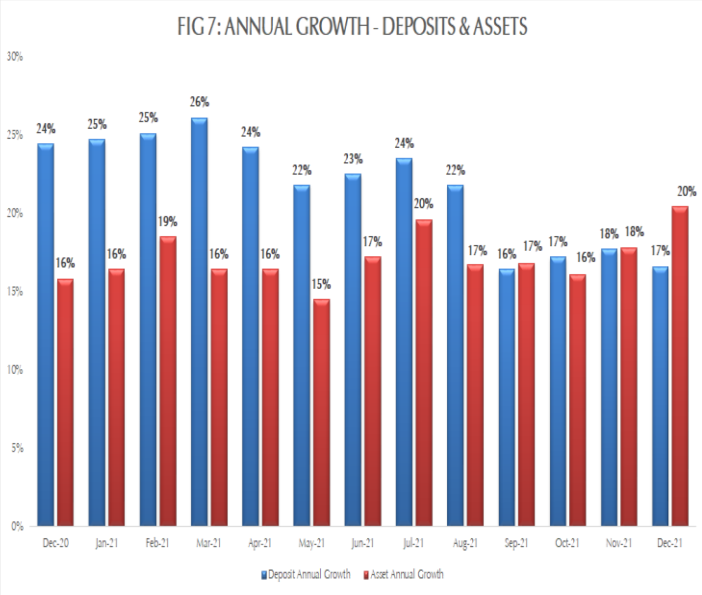


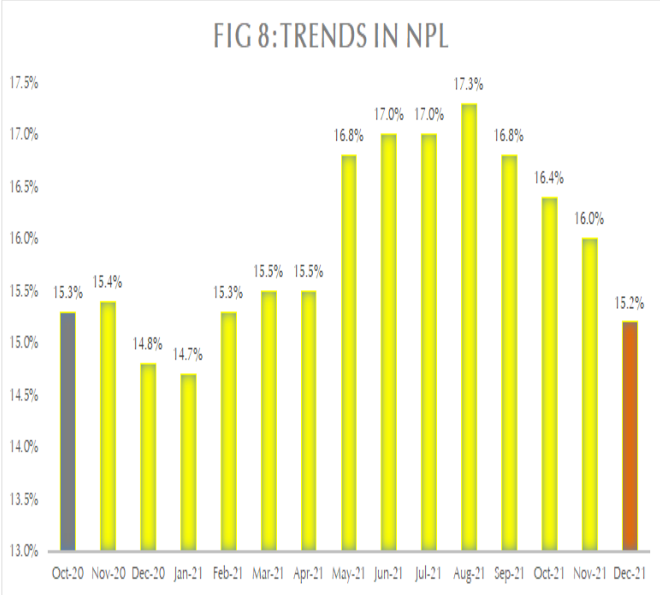
Source: Bank of Ghana & GCB Research.

We forecast interest rates on the short end of the money market to show a marginal uptick in the first quarter of 2022 with the 91-day and 182-day bills projected to close at 12.5% and 13.3% respectively. The 364-day instrument is also forecast at 16.8% for the same period. This is a reflection of government borrowing requirements to fund the fiscal gap.

8. Banking Sector Developments

- ✓ The performance of the banking sector in 2021 pointed to sustained growth in assets, deposits, and investments alongside improvements in the financial soundness indicators. In 2021, total assets grew by 20.4 percent to GH¢179.8 billion.
- ✓ Asset quality however continued to reflect the general pandemic-induced repayment challenges as well as some bank-specific loan recovery challenges. From the peak of 17.3 percent in August 2021, the NPL ratio eased further to 15.2 percent at end-December 2021. Comparatively, the NPL ratio was 14.8 percent in December 2020.
- ✓ The industry remained solvent with the average industry CAR of 19.6 percent well above the 11.5 percent regulatory minimum threshold.
- ✓ Core liquid assets to short-term liabilities was 25.9 percent in December 2021 compared with 27.8 percent a year ago.
- ✓ Net interest income grew by 14.5 percent to GH¢12.8 billion, lower than the growth of 20.9 percent a year ago partly due to decline in interest rates.
- ✓ Net fees and commissions however recorded a 24.8 percent growth to GH¢2.9 billion, compared with 5.0 percent last year, reflecting continued recovery in trade finance-related and other businesses of banks.
- ✓ This resulted in a 14.6 percent growth in total operating income to GH¢17.4 billion, compared with 17.9 percent growth last year.
- ✓ Operating costs increased by 14.2 percent, higher than the 8.2 percent growth for same period in 2020.
- ✓ Loan loss provisions however contracted by 4.7 percent as at end-December 2021 from the 28.0 percent growth recorded a year ago, following the reversal of over-provisioning at the height of the pandemic in 2020.
- ✓ Profit-before-tax increased by 22.1 percent in 2021 to GH¢7.4 billion, below the growth of 27.2 percent in 2020.
- ✓ Credit performance improved marginally, consistent with the gradual recovery in the real sector. Annual nominal growth in private sector credit increased to 11.2 percent in December 2021 compared with 10.6 percent, in the corresponding period of 2020.
- ✓ However, sustained price pressures weighed on real private sector credit, which contracted by 1.3 percent compared to a modest growth of 0.2 percent, over the same comparative period.
- ✓ The COVID-19 regulatory policy measures were kept in place during 2021 and helped provide some support to lending activities of banks.
- ✓ New Advances extended by the commercial banks to the economy was GH¢36.4 billion, registering a growth of 6.8 percent compared with new advances of GH¢34.1 billion extended in 2020.





Source: Bank of Ghana

9. Our Outlook for the Policy Rate

The Bank of Ghana (BoG) increased the policy interest rate by 100 basis points to 14.5% at its November monetary policy committee meeting, in a bid to curtail rising inflationary pressures. Supply-side price pressures—including high utility and food prices, new taxes, rising global commodity prices, and freight and pandemic related supply chain disruptions—are likely to keep inflation elevated in 2022. Thus, our expectation is for a further hike in the policy rate to 15% in the near term in a bid to keep inflation within the target range of 8% (plus or minus 2 percentage points) as the cedi continues to depreciate against the US dollar.

10. Implications for GCB Bank

1. With anticipated volatility in the market due to rising debt and a fiscal gap, we expect interest rates to be very attractive at the long end of the market due to expected government borrowings to fund the fiscal gap. Again, we expect interest rates at the short end of the market to see a marginal uptick to make it attractive to attract borrowers from the domestic market. Government seeks to borrow a total of **GHS27.9 billion** or more in 2022 from the domestic market. This expected rise in interest rates presents an opportunity for the business units to study the market and lock in some good loans when the right window presents itself. **We recommend that this should be on the back of rigorous loan underwriting to minimise bad loans. Furthermore, opportunity exists for investing in attractive Government bonds/retap programmes 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.** On the flipside, we should also anticipate the likely push by customers for increases in the rate of Fixed Deposits(FDs).
2. According to the MPC report, asset quality continues to reflect the general pandemic-induced repayment challenges as well as some bank-specific loan recovery challenges. 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.