SARPONG CAPITAL

Ghana
2023

The Waiting Game

Important disclosures can be found in the Disclosures Appendix

Ghana 2023: The Waiting Game

13:01 GMT 21 April 2023

Overview

Compared to 2021, 2022 ended with much uncertainty for the Ghanaian economy. Four months on, things appear clearer but not necessarily encouraging for the near term. The Ghanaian outlook is similar to the global macroeconomic perspective as countries struggle to rebalance their economies following slower recovery from the COVID pandemic, economic shocks from the Russia-Ukraine war, soaring inflationary pressures, and overall fiscal challenges. Indeed, widespread elevations in credit risk are well documented across the globe. Ghana reached credit rating 'default' status following failure to honour fiscal obligations to Domestic bond and Eurobond holders at the start of the year, though remedied to an extent in the case of domestic bond obligations following conclusion of a Domestic Debt Exchange Programme in February 2023.

The outlook for the global economic landscape indicates constrained growth in 2023 as markets recover from relentless headwinds. We expect some tapering of inflationary pressures and consolidation of debts, all to ensure improved economic signals from the second half of 2023.

Developing nations, Ghana inclusive, are focused on resolving dire fiscal challenges whilst looking inwards to boost economic growth and manage inflationary pressures in 2023. We expect this theme to drive policy decisions and investment direction for better real sector output, barring no further significant global macroeconomic shocks.

Contents

Yomi Akinola,
+234-909-863-6660
omayomi-akinola@sarpongcapital.com

Marie Aimée Nirere
+233-279-542740
manirere@sarpongcapital.com

Summary of Key Macro Indicators and Forecasts

	FYE 2021	FYE 2022	2023 Current
Credit Ratings – Long Term Issuer Default			
Fitch	**B** Negative outlook	**C** No outlook	**RD** No outlook
Moody's	**B3** Negative outlook	**Ca** Stable outlook	**Ca** Stable outlook
S&P	**B-** Stable outlook	**SD** No outlook	**SD** No outlook

	FYE 2021	FYE 2022	FYE 2023 Outlook	
Key Rates				
Inflation – CPI	12.6%	54.1%	19.7%	↓
Inflation – PPI	14.7%	52.2%	28.8%	↓
Currency (Depreciation) – YTD GHS/USD (Interbank End Period)	4.1%	42.4%	43.4%	↑
Monetary Policy Rate	14.5%	27.0%	26.0%	↓
Key Ratios				
Deficit to real GDP	27.2%	26.4%	25.2%	↓
Deficit to nominal GDP	9.2%	7.2%	6.3%	↓
Debt to real GDP	162%	319.4%	285.8%	↓
Debt to nominal GDP	76.6%	74.1%	63.2%	↓
Trade Balance to nominal GDP	3.3%	3.9%	4.3%	↑
Overall Balance of Payments to nominal GDP	1.5%	-5.0%	-0.3%	↑
Other				
GDP Growth	5.4%	3.1%	2.8%	↓
Reserves	$9.7 billion	$6.2 billion	$7.2 billion	↑
Import Cover (months)	4.3	2.7	3.2	↑

The Global Macroeconomy

Overview of the World in 2022

The global theme for 2022 was to be nimble and efficient, as the world recovered from setbacks of the Covid pandemic. Expectations of measurable growth were high as industries spluttered back to life, despite lingering supply chain challenges and uneven regional recovery. Inflationary pressures on the back of ramped-up raw material demand following the manufacturing lull of 2021 and the money supply effects of quantitative easing and pandemic support packages, informed aggressive contractionary policy stances in key economies. The policy decisions led to higher living costs, operating expenses, and finance costs amid sluggish revenues impacting households, businesses and governments alike.

Following the invasion of Ukraine by Russia, pandemic recovery themes for most nations further deteriorated due to higher energy costs, weak economic growth, debt sustainability challenges and currency volatilities. Emerging markets and developing countries were particularly hit on account of import dependence for goods, services and financing *vis-a-vis* commensurately insufficient levels of foreign exchange earnings.

Broadly, notwithstanding the encouraging start to 2022, global trends seen through the year bordered on:

- Geo-political and regional conflicts
- Exchange rate volatilities
- Aggressively contractionary monetary policy action
- Supply chain challenges, exacerbated by the Russia-Ukraine war
- Higher energy costs stemming from the Russia-Ukraine war
- Soaring inflationary pressures
- Crude oil demand volatilities impacted by China's persistent Covid lockdowns
- Higher debt vulnerabilities, particularly in emerging markets, with a myriad of restructurings and IMF engagements
- Improvements in tourism activity and business travel
- Better ability of nations to cope with Covid cases

Regionally, trends in 2022 included

<u>China</u>

- Zero-covid approach to tackling the pandemic, which included lock-downs for most of 2022, impacting manufacturing and trade

<u>Euro-Area</u>

- Pockets of internal political strains for a number of key nations, including the UK
- Interest rate (marginal lending facility) hikes, cumulatively a 250bps raise to 2.75% from the start of 2022 at the end of December 2022 from the European Central Bank and a cumulative 325bps hike to 3.5% by the Bank of England by the end of December 2022 and further to 4.25% in March 2023.
- Increase in the frequency of strikes and protests on account of cost-of-living challenges and unmet wage raise demands

- Russia – Ukraine conflict significantly impacting energy costs across the Eurozone

- Persistent inflationary pressures rising sharply in the year to historic highs. Though remaining elevated, some slowing was finally noted in Q4 2022 (December CPI- United Kingdom: 10.5% France: 6.7%, Germany: 8.6%, Spain: 5.8%, Russia: 11.9%).

The United States of America

- Various monetary policy hikes through the year by 400bps in a bid to tackle inflationary pressures

- Volatile labour market following a protracted pandemic and job losses which reversed into new job openings as the economy recovered without the commensurate level of workers willing to return to work

- Cryptocurrency volatilities that first boosted and then eroded earnings

- Continued political jostling between Republicans and Democrats at all levels

Emerging markets

- Currency depreciation relative to the USD has been a key challenge, particularly for import-dependent nations

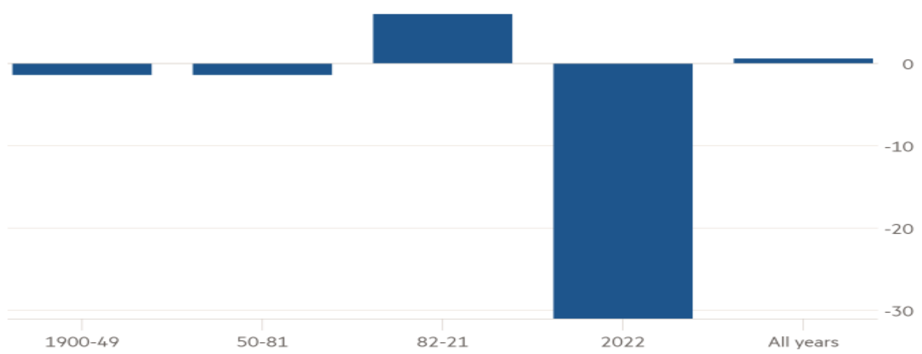
- Global inflationary pressures from oil prices, supply of raw materials and consumer goods~~,~~ further exacerbated by high inflation rates. Key markets ended the year with year-on-year consumer price inflation as follows - Ghana: 54.1%, Nigeria: 21.34%, Brazil: 5.79%, Cuba: 39.07%

- Monetary Policy Rate hikes in a bid to contain inflationary pressures (For instance Nigeria: From 11.5% at the start of 2022 to 16.5% at the end and further to 18% in March 2023, Kenya: From 7.5% at the start of 2022 to 8.75 at the end of 2022 and 9% by March 2023).

- Debt sustainability issues boiled over in various countries leading them to seek International Monetary Fund support. These include Egypt, Zambia, Sri Lanka, Ghana and others

On the capital markets front, bond activity took a hit globally in 2022 on account of rising interest rates. Interest rate hikes were also insufficient to outpace inflationary pressures or offer investors any good measure of real returns. Globally, bonds lost some 30% or more in value, varying by economy. In areas where high bond returns were seen, they still remained insufficient to achieve positive real returns. In addition, credit risk was accentuated. These made for uneasy investment management for both yield-seeking investors and for risk averse investors. For governments in key emerging markets, the concept of risk free for government-issued securities was severely tested and defied, for instance in the case of Ghana.

Figure 1: Annualised real return for bonds



Sources: Financial Times, Credit Suisse, Elroy Dimson and Mike Staunton

Equities also suffered the dual impact of interest rate hikes and inflationary pressures on profitability, accentuating performance risks of key stocks. With looming global recession fears, expectations for equities are cautious.

Figure 2: Key global and regional indicators (2019-2023)

Source: Bloomberg

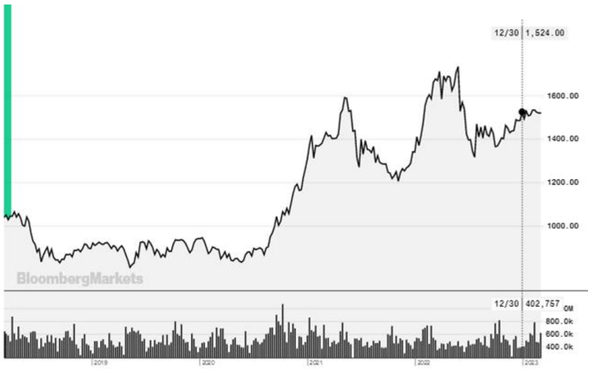
Figure 3: Performance of Key Commodities (2019-2023)

Crude Oil (Brent)

Gold

Cocoa

Soybean



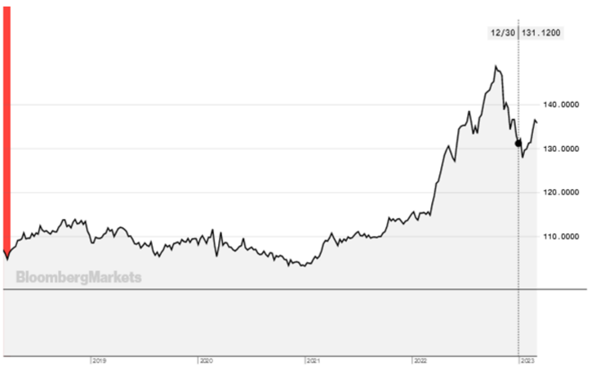
Source: Bloomberg

Figure 4: Performance of Key Currencies

GBP/USD

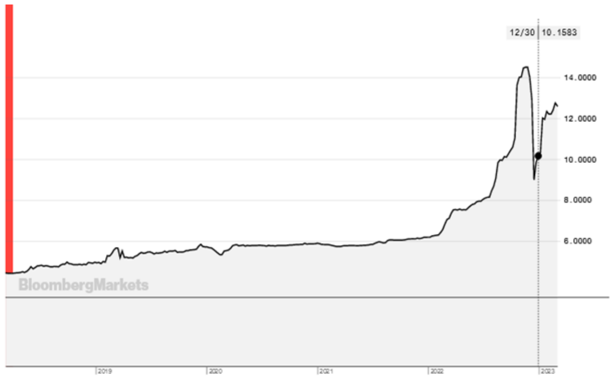
EUR/USD

JPY/USD

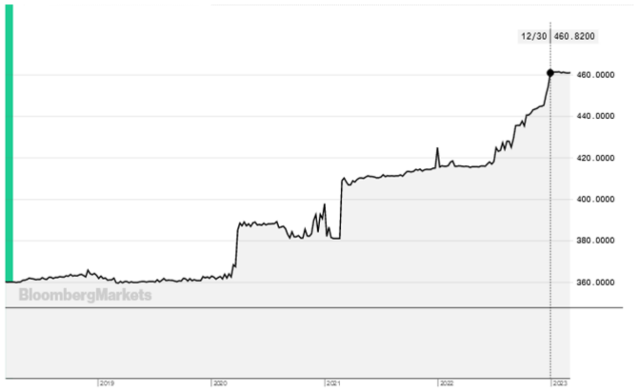


ZAR/USD

USD/GHS



USD/NGN



Source: Bloomberg

We believe policymaking and macroeconomic positioning will dominate 2023. As the economic landscape evolves globally, policy direction, ease of transmission of changes, effectiveness assessments and flexibility will be the key to steering global growth and sustainability. For developing nations, partnerships, particularly DFI-funded projects or public-private partnerships will also play a huge role in taking back the reins of the real sector and positioning for growth beyond 2023.

Our global macroeconomic expectations border on the fact that 2023 will hold many inflection points with the key question being when these would crystalise. We expect that:

- Inflationary pressures will peak very early on in the year in key economies and start to abase, barring no further global macroeconomic, health or energy shocks. However, being broad-based, developing economies will see price pressures linger.
- Widespread economic lull will be recorded for the first half of the year as markets navigate the lingering challenges of cost pressures and low demand of 2022. Growth signals are expected for the second half of the year.
- Tightening monetary policies will continue through H1 2023. Accordingly, rate hikes will be seen for the first few months of the year yielding to some subsequent (inflation-determined) easing. Interest rates are however expected to remain elevated with adverse implications for developing nations accessing international capital markets.
- Regulatory monitoring of the banking and financial services segments will be significantly ramped-up.
- Countries will be acutely aware of the economic downsides of geopolitical conflicts and actively work to avoid escalation of tensions and associated volatilities (i.e. US-China).
- China's reopening will support global crude oil demand. OPEC+ recent 1-million-barrel production quota cut may stoke some price pressures. Crude oil prices are expected to hover between \$70 and \$80 per barrel
- Debt capital markets are expected to remain sluggish with tight liquidity for 2023. Any significant decline in interest rates may spur some much-required capital raising activity.
- We expect investors to demonstrate cautious behaviour, relying less on government securities.

Ghana

2022 and Q1 2023 in Retrospect

2022 will go down in history as one of the most eventful years in recent times for Ghana and indeed the global community. Characterized by unprecedented inflation, elevated interest rates, higher government expenditure and subdued economic growth, the much-anticipated recovery from the Coronavirus pandemic did not go according to plan.

In **Q1 2022**, hopes were high about returning to a level of normalcy given rapid detection and better management of emerging Coronavirus variants from a more knowledgeable health service and populace, in addition to vaccine roll-out. The Russia – Ukraine war commenced in February sending the world into a frenzy about oil prices even as pandemic-related supply chain disruptions still persisted globally. Proactively, Ghana instituted measures to manage rising costs such as cuts to MDA spending, salaries of Ministers and Heads of State-Owned Enterprises, etcetera. These were however insufficient to make an impact.

With elevations in inflation globally and locally, **Q2 2022** heralded further rises in interest rates in a bid to control soaring prices, and offer investors better real returns. Political tensions in the Country between the two major parties NPP and NDC escalated on account of revenue generation initiatives such as the Electronic Transfer Levy Act 2022 which sought to boost government revenue from e-transfers. Concerns around foreign currency financing further exacerbated macroeconomic woes.

Ghana's inability to access the international capital markets in the first half of the year accentuated the Country's liquidity challenges in **Q3 2022**. The combination of soaring inflation (north of 30% from July 2022), rising interest rates and higher government outflows in local and foreign currency elevated the Country's credit risk profile. The road ahead looked tricky in terms of Ghana's debt burden particularly external debt and overall liquidity. In addition, the Cedi was persistently losing value, a joint effect of the Country's heightened credit risk profile, inflation and narrowing international reserves position. By the start of Q3 2022, gross international reserves had fallen by over 20% to $7.6 billion, sufficient for 3.4 months of imports. These escalating events prompted a return to the IMF for preliminary discussions on a bail-out programme. By the end of Q3 2022, gross international reserves amounted to $6.6 billion, sufficient for 2.9 months of imports.

Q4 2022 was filled with vigorous efforts to secure IMF funding. Ghana formally announced its debt restructuring programme at the start of December 2022 as a prerequisite to access IMF funding for any country whose debt is deemed unsustainable. The Ministry of Finance intensified its eventually successful bid to secure at least a Staff-level agreement with the IMF, given pressures of looming domestic and external bond maturities. Ghana's credit risk profile further took a hit on news of debt restructuring.

An air of lethargy dominated **Q1 2023**. Uncertainties around debt restructuring and the direction of macroeconomic fundamentals impacted businesses. Completion of the Domestic Debt Exchange Programme in February 2023 ushered in a lower interest rate environment with treasury bill rates dipping to around 20% from around 32% at the start of the year. This is in spite of concurrent monetary policy rate hikes totalling 250bps to 29.5% by the end of March 2023. Positively, inflation slowed in this period, reaching 45% at the end of March 2023, a joint effect of stabilising food prices and an overall year-on-year base drift effect.

We highlight key milestones pertinent to the debt restructuring conversation from December till date as follows:

Table 1: Timeline of Debt Exchange Programme and IMF Engagements

5th Dec 2022	Domestic Debt Exchange Programme (DDEP) formally launched with Government seeking to exchange eligible bonds totalling GHS 137 billion for 4 new bonds maturing between 2027 and 2037, with an offer deadline of 19th December 2022 Institute of Chartered Accountant Ghana (ICAG) issues accounting implications of the DDE programme on Banks
7th Dec 2022	Ghana Securities Industry Association (GSIA) rejects bond exchange programme via press release
8th Dec 2022	Bank of Ghana issues note on regulatory reliefs and reporting guidelines for monitoring liquidity
9th Dec 2022	Securities and Exchange Commission issues circular on regulatory support to mitigate the impact of the programme
13th Dec 2022	Announcement of IMF Staff-Level Agreement

16th Dec 2022	First extension of the expiration date of the DDEP offer from 19th December 2022 to 30th December 2022
19th Dec 2022	Ministry of Finance announces suspension of payments on selected external debts of Government of Ghana. Eurobond holders form a representative committee steered by key institutional investors with Rothschild & Co serving as financial advisor.
22nd Dec 2022	Pension funds exempted from DDEP programme following discussions with the Ministry of Finance and execution of a Memorandum of Understanding
24th Dec 2022	Announcement of inclusion of individual bondholders to the programme Second extension of the expiration date of the revised DDEP offer from 30th December 2022 to 16th January 2023
11th Jan 2023	Individual Bondholders Forum formal advocacy begins with calls for membership
16 Jan 2023	Third extension of the expiration date of the revised DDEP offer from 16th January 2023 to 30th January 2023 Ghana Association of Banks reject amended debt exchange offer Institute of Chartered Accountant Ghana issues further accounting implications and impairment assessment comments relating to the revised DDEP programme, in response to Bank of Ghana's comments on the first ICAG report
18 Jan 2023	Ministry of Finance meets with representatives of the Individual Bondholders Forum and others and a committee is inaugurated to support efforts to arrive at a palatable solution to the debt challenge
23rd Jan 2023	Ministry of Finance and Ghana Association of Banks release a joint press statement on changes agreed on to improve the terms of the DDEP. These changes are **-Coupon of 5% to be paid for 2023 and a single coupon rate for each of the 12 new bonds at 9%,** **-Clarity on terms of access of the stability fund** **-Removal of clauses that empower the Republic to vary terms of the exchange unilaterally**.
26th Jan 2023	Ministry of Finance and Ghana Insurers Association release a joint press statement on their agreement with respect to the programme. **It was agreed that insurance companies will participate will similar terms that banks agreed to on 23rd Jan 2023.**
27TH Jan 2023	Ministry of Finance and Ghana Securities Industry Association (GSIA) release a joint press statement announcing that an understanding has been reached in terms of participation of capital market operators in the programme. **It was agreed that the terms agreed to with banks will be extended to all capital market operators. In addition, Collective Investment Schemes (CIS) who hold bonds in Trust accounts with Securities & Exchange Commission (SEC) approved firms will be offered any enhanced commercial terms agreed with or exemptions granted to Individual bondholders.**
31st Jan 2023	Forth extension of the expiration date of the revised DDEP offer from 30th January 2023 to 7th February 2023
7th Feb 2023	Administration window given by the Ministry of Finance for eligible bondholders to complete participation documentation by the 10th of February 2023 (the closing date)
14th Feb 2023	Government announced results of domestic debt exchange programme and pegged participation rate at approximately 85%
21st Feb 2023	Domestic Debt Exchange Programme settled and concluded with a new principal amount of GHS 87.8 billion **Rating Action**: Fitch Downgraded Ghana's Long Term Issuer Ration to RD from C following expiration of the 30-day grace period on non-payment of Eurobond obligation.
13th Mar 2023	Government to resume coupon and principal payments on old bonds. Coupon payments were made on 23rd March 2023.
7th Apr 2023	Government proposed an alternative offer for pension funds that fully compensated for the value of current holding with an average coupon of 8.4%, exchange ratio of 1.15x and an additional cash payment of 10%. The Government hopes to settle this offer by the end of April 2023
13th Apr 2023	Ministry of Finance holds joint virtual presentation alongside Bank of Ghana, and financial advisors to the Government of Ghana -Lazard and Hogan Lovells. The parties highlighted progress so far with DDEP and projected an April-end/May timeline for external debt restructuring and IMF process completion.

Source: Sarpong Capital Research and Regulator and Association publications

Government Finances

Revenue and Expenditure

Ghana's fiscal position has been much debated. High recurrent expenditure levels and expanding finance costs with subpar revenues have resulted in huge deficits, particularly following the COVID pandemic.

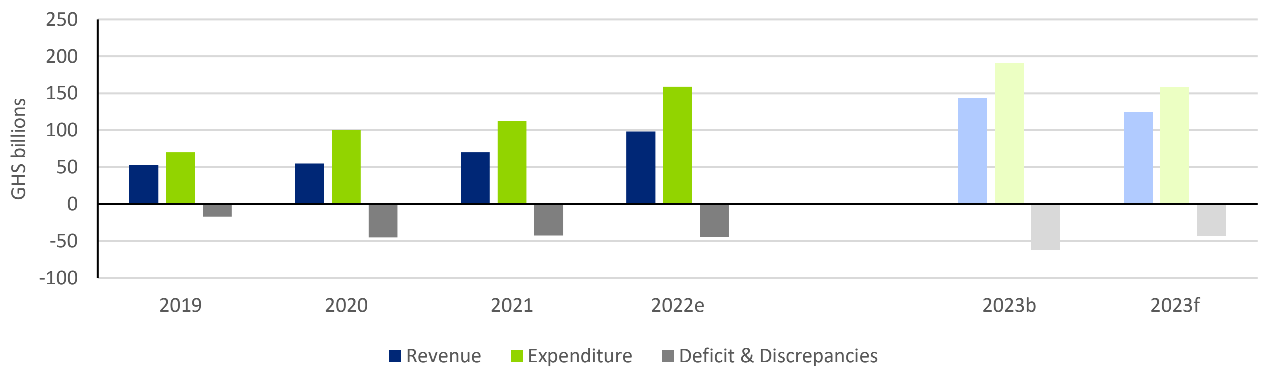
The Government of Ghana projects a revenue outturn of GHS 98.1 billion for 2022 when its figures are released, representing 39.9% growth over the prior year. We expect a lower actual outturn of about GHS 95.3 billion due to lower than projected tax revenue. Tax revenue continues to serve as a major funding source for central government activities. Income and domestic goods/services taxes, account for approximately 80% of total revenue annually. The Government's revenue position is further supported by non-tax revenue, particularly non-tax internally generated funds from social sector ministries - Ministry of Health, Ministry of Education, as well as the various Infrastructure ministries.

Central government spending on the other hand, projected to be GHS 159.0 billion for 2022, including outstanding expenditure claims of GHS 22.1 billion by the government is expected to largely be achieved. 2022 was a year fraught with higher funding costs in view of an elevated rate environment, as well as soaring inflationary headwinds. Workers' compensation and financing costs cumulatively accounting for approximately 51.9% of total expenditure and 84.1% of Government's projected revenue outturn stoked conversations on fiscal consolidation in the year. In addition, expenditure growth continues to outpace revenue growth. The 2022 budget deficit is thus expected to have totalled approximately GHS 47.6 billion, 6.9% higher than projected outturns.

The proposed 2023 budget as presented in Q4 2022 projected government revenue for 2023 at GHS 143.9 billion and expenditure at GHS 191.0 billion, with an expected deficit of GHS 61.5 billion. We believe budget numbers will be revised over the coming weeks given the recently concluded domestic debt exchange and conversations with external creditors impacting debt service costs. The forecast for revenue is expected to be supported by policies such as the 2.5 percentage points increase in VAT rate, the elimination of the import benchmark value discount, and reassessment of the E-Levy rate from 1.5% to 1.0% and expanding the net to all transactions.

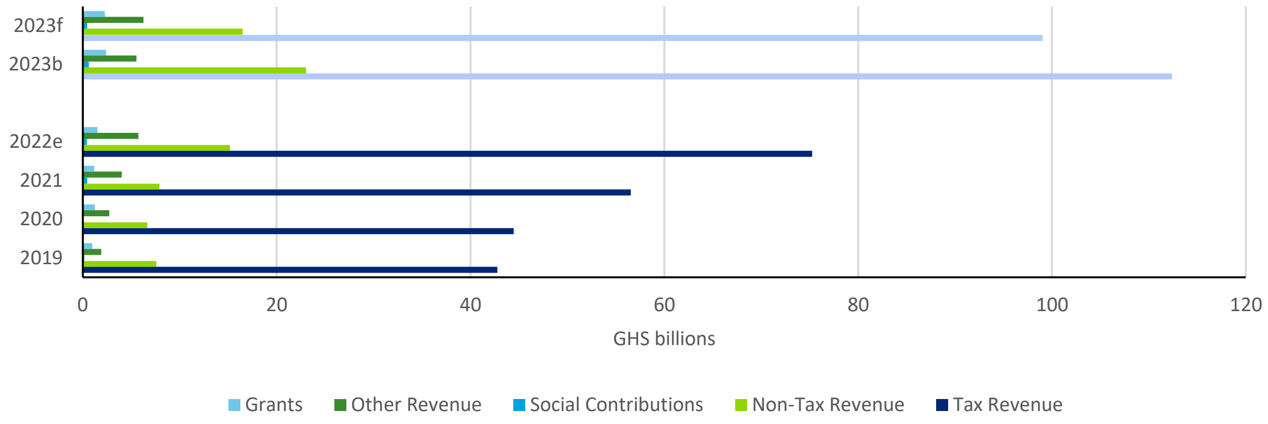
On the expenditure side for 2023, in addition to reductions in debt service costs and budgetary provisions for MDAs, the proposed lowering of the ceiling on transfers to funds from 25% to 17.5% and efforts to rationalise government executive remuneration should provide some control on expenditures. Thus, we project a deficit of GHS 42.4 billion with total expenditure shrinking by at least 16% from the currently tabled budget numbers. Achieving this target is however dependent on early and effective implementation as well as willingness to accommodate other viable revenue generation suggestions tabled by citizens during the DDEP negotiations. Some of the suggestions relating to revenue generation include encouraging oil producers to ramp up production, enforcing collection of property, corporate and other taxes, divestment or privatisation of draining and sub-productive state-owned enterprises. Expenditure cut suggestions include cutting budgetary provisions for energy sector shortfalls, rightsizing MDAs and SOEs and reviewing of the free SHS programme. We therefore expect a revised 2023 budget that will reflect recent debt restructures, other proposed fiscal adjustments and current economic realities.

Figure 5: Fiscal position in 2023 to be impacted by the debt exchange programme



Sources: Ministry of Finance and Sarpong Capital Research

Figure 6: Tax revenue continues to uphold Government earnings and expected to be buoyed by VAT increase

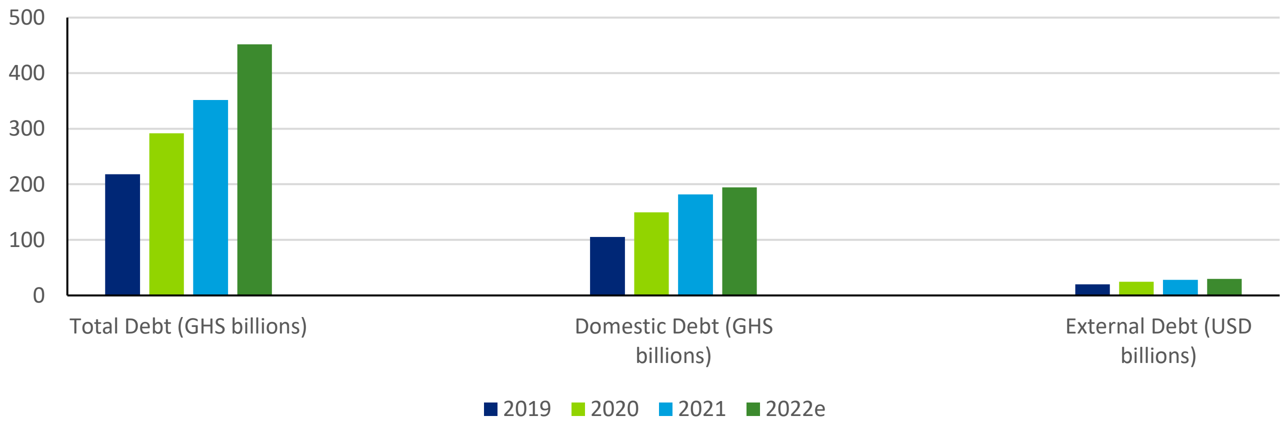


Sources: Ministry of Finance and Sarpong Capital Research

Debt Profile

Expected debt sustainability risks crystalised earlier than anticipated in 2022. By the end of November 2022, government figures indicated public debt had risen by 63.6% from the start of the year to GHS 575.7 billion - on account of steep currency depreciation which impacted external debt. At this level, Ghana's public debt stood at 93.5% of nominal GDP, and exceed 100% when debt held by entities with government interest, and contractor outstandings are included, per IMF debt sustainability analysis framework. Local debt totalled GHS 193.1 billion while external debt totalled GHS 382.7 billion ($ 29.2 billion). With appreciation of the Cedi in December, public debt is expected to have declined to approximately GHS 452.0 billion by the end of December 2022. An increase however is expected into Q2 2023 as the currency value continues to depreciate.

Figure 7: Ghana's public debt stands bloated in cedi terms on account of cedi depreciation impact on external borrowings



Sources: Bank of Ghana and Sarpong Capital Research

Dire fiscal constraints led the Ghanaian Government to formally seek support from the International Monetary Fund (IMF) in July 2022. Investor confidence had waned, and successfully tapping the international capital market, a critical source of foreign currency funding, proved unachievable given debt sustainability concerns and macroeconomic fundamentals. The Domestic Debt Exchange Programme was concluded in February 2023 following months of tough negotiations and conversations between the government and bondholders. Some GHS 126.1 billion worth of outstanding domestic GOG bonds comprising fragmented holdings of bonds maturing each year from 2023 to 2034 and in 2039, were deemed eligible on a 1-for-1 basis under the programme. GHS 8.4 billion and GHS 2.8 billion in ESLA (Energy Sector SPV) and Daakye (Education Funds SPV) bonds respectively, were also deemed eligible.

Government extended the deadline three times between December 2022 and February 2023 due to aggressive pushback, and indications of low participation from various categories of domestic investors concerned about the adverse implications of the programme on their savings. Ensuing discussions where pension funds spoke out against inclusion of pensioners' holdings in the exchange programme led to their exclusion, and subsequent inclusion of individuals in a bid to achieve desired annual interest burden and principal payment targets.

According to the Final Amended and Restated Domestic Bond Exchange Memorandum, the exchange consideration ratios and offer for new bonds were as follows:

- Category A Holders, comprising eligible bondholders that are Collective Investment Schemes or natural persons below the age of 59 years old as of 31st January 2023 whose validly submitted Offers or Exchange Instructions are accepted by the Republic, will receive Category A New Bonds due 2027 and 2028, allocated using the following Exchange Consideration Ratios

- Category B Holders, comprising eligible bondholders that are natural persons 59 years or older as of 31st January 2023 whose validly submitted Offers or Exchange Instructions are accepted by the Republic, will receive Category B New Bonds due 2027 and 2028, allocated using the following Exchange Consideration Ratios.

Table 2: Final DDE Terms Category A and B

Maturity		Category A	Category B
		Financial Terms	Financial Terms
August 2027	50%	• 10.0% cash interest from settlement date to but excluding maturity date	• 15.0% cash interest from settlement date to but excluding maturity date
August 2028	50%	• 10.0% cash interest from settlement date to but excluding maturity date	• 15.0% cash interest from settlement date to but excluding maturity date

Source: Ministry of Finance

- General Category Holders comprising eligible bondholders that are not category A or B bondholders such as corporate entities and financial institutions not contained within the definition of Collective Investment Schemes whose validly submitted Offers or Exchange Instructions are accepted by the Republic will receive New Bonds depending on whether the tendered Eligible Bonds are due in 2023 or later than 2023.

Table 3: Final DDE Terms General Category

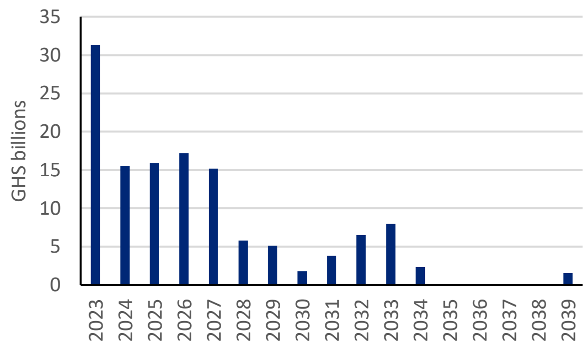
Maturity	General Category		
	Eligible 2023 Bonds	Other Eligible Bonds (excl 2023)	Financial Terms
February 2027	15%	9%	• 5% cash interest + 3.35% PIK interest from settlement date to but excluding 14/02/2025 • 8.35% from 14/02/2025 to but excluding the maturity date
February 2028	15%	9%	• 5% cash interest + 3.50% PIK interest from settlement date to but excluding 14/02/2025 • 8.50% from 14/02/2025 to but excluding the maturity date
February 2029	14%	9%	• 5% cash interest + 3.65% PIK interest from settlement date to but excluding 14/02/2025 • 8.65% from 14/02/2025 to but excluding the maturity date
February 2030	14%	9%	• 5% cash interest + 3.80% PIK interest from settlement date to but excluding 14/02/2025 • 8.80% from 14/02/2025 to but excluding the maturity date
February 2031	14%	8%	• 5% cash interest + 3.95% PIK interest from settlement date to but excluding 14/02/2025 • 8.95% from 14/02/2025 to but excluding the maturity date

February 2032	14%	8%	• 5% cash interest + 4.10% PIK interest from settlement date to but excluding 14/02/2025 • 9.10% from 14/02/2025 to but excluding the maturity date
February 2033	14%	8%	• 5% cash interest + 4.25% PIK interest from settlement date to but excluding 14/02/2025 • 9.25% from 14/02/2025 to but excluding the maturity date
February 2034		8%	• 5% cash interest + 4.40% PIK interest from settlement date to but excluding 14/02/2025 • 9.40% from 14/02/2025 to but excluding the maturity date
February 2035		8%	• 5% cash interest + 4.55% PIK interest from settlement date to but excluding 14/02/2025 • 9.55% from 14/02/2025 to but excluding the maturity date
February 2036		8%	• 5% cash interest + 4.70% PIK interest from settlement date to but excluding 14/02/2025 • 9.70% from 14/02/2025 to but excluding the maturity date
February 2037		8%	• 5% cash interest + 4.85% PIK interest from settlement date to but excluding 14/02/2025 • 9.85% from 14/02/2025 to but excluding the maturity date
February 2038		8%	• 5% cash interest + 5.00% PIK interest from settlement date to but excluding 14/02/2025 • 10.00% from 14/02/2025 to but excluding the maturity date

Source: Ministry of Finance

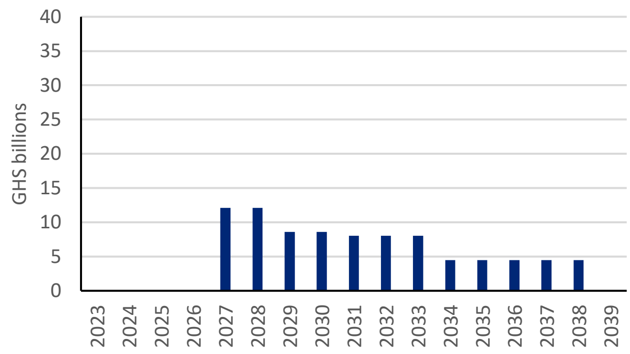
- Interest payments will be made semi-annually in arrears where applicable, commencing in August 2023. Cash interest will be paid in cash while PIK interest will be paid by increasing the principal amount using the applicable rate.
- Maturities are slated for February or August as applicable of each relevant year and principal payments will be made as one single payment on the maturity date.

Figure 8:Old Eligible Domestic Bond Principal Maturity



Source: Ministry of Finance

Figure 9: New Domestic Bond Principal Maturity

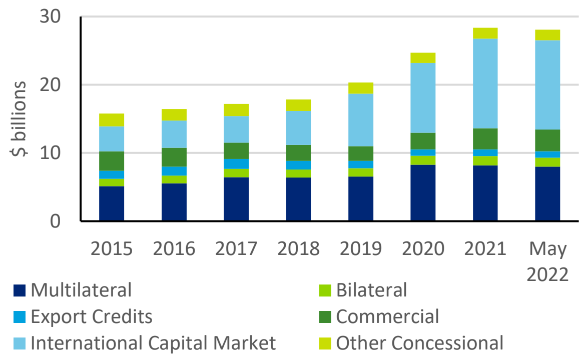


Source: Ministry of Finance

The Government was able to restructure approximately GHS 83.0 billion in domestic debt principal from its originally proposed total, and expects this to yield debt service savings of GHS 34 billion in 2023. The Government overall goal is to treat a total domestic debt stock of GHS 123 billion. Asides the domestic bonds restructured, negotiations are ongoing related to pension fund holdings, Cocobills, USD local bonds, local currency loans and BOG nonmarketable debt (overdrafts, etcetera).

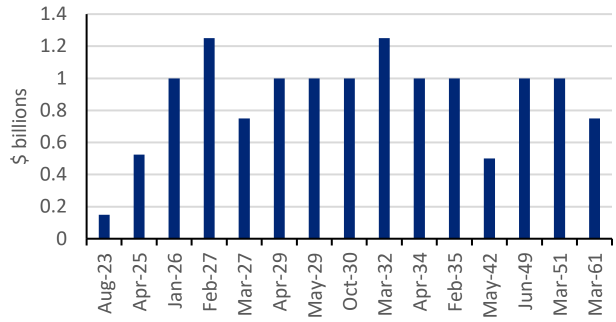
In addition, the Government suspended payments on selected external borrowings (Eurobonds, commercial term loans and bilateral debt, contracted before 19 December 2022) whilst it engages external investors on restructuring. On the 17th of February 2023, a formal default was registered following the expiration of a contractual 30-day grace period in the event of non-payment of agreed interest or principal obligations. Negotiations are also ongoing with external creditor groups. In a virtual address delivered on the 13th of April 2023 by the Ministry of Finance, the Bank of Ghana and financial advisors to Ghana -Lazard and Hogan Lovells, the parties disclosed exclusion of multilateral development institutions and non-resident holders of local debt from the restructuring perimeter. Official creditors, made up of bilateral and ECA backed commercial creditors are however included in the perimeter, a debt stock total of about $5.4 billion. This is in addition to obligations to other commercial creditors/bondholders (including holders of a 2030 World Bank partially guaranteed bond) and non-insured commercial banks, with a total debt stock consideration of $14.6 billion.

Figure 10: Segmentation of Ghana's External Debt



Source: Ministry of Finance

Figure 11: Maturity Profile of Ghana's Eurobonds



Source: Ministry of Finance

Trade

Though Ghana's export volumes remained fairly stable, earnings were buoyed by higher commodity prices particularly crude oil. The Country was however not insulated from higher import costs for refined petroleum products and global inflation headwinds which increased the overall costs of imports. While exports for 2022 jumped 18.2% year-on-year to $17.4 billion, imports increased at a slower pace of 7.6% to $14.7 billion, $4.8 billion of which was attributable to refined petroleum product imports. Ghana's trade balance of approximately $2.8 billion improved over 2021's $1.1 billion trade balance.

Gold exports accounted for approximately 38.0% of total exports in 2022 while oil and cocoa exports accounted for 31.2% and 12.7% respectively. As a fall out of the pandemic and with market players seeking safety in gold, prices have been volatile on account of speculative activity. Oil and cocoa exports on the other hand have been buoyed by improved global demand as manufacturers recommenced operations post-pandemic.

Importantly, volatility in global commodity prices in 2022 are expected to persist given global pandemic uncertainties and an evolving trade terrain, particularly for oil, chemicals, manufacturing components and select agricultural produce. Agriculture however has an extra layer of climate change risks including droughts and severe flooding impacting key production hubs in Africa and beyond.

For Cocoa, recent dry weather and high temperatures in key supplier Ivory Coast will impact 2022/23 production with a likely upward impact on prices.

For gold, persistent global macroeconomic headwinds with weak growth will uphold demand and price rallying, alongside China's reopening.

For crude oil, China's reopening and consequent increase in economic activity will spur demand. Pricing will be hinged on OPEC quotas on output and ability of other producers to meet any additional demand.

Figure 12: Cocoa Price Trend (2022)

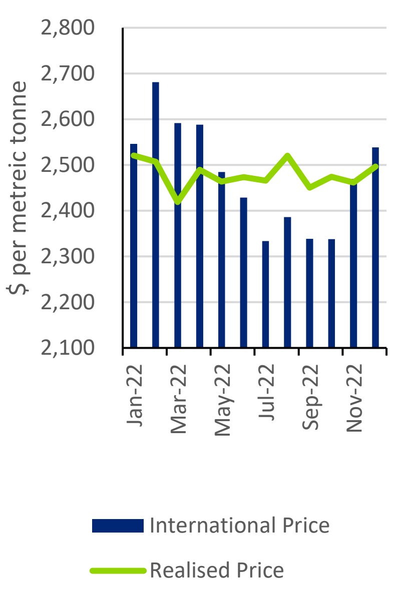


Figure 13: Gold Price Trend (2022)

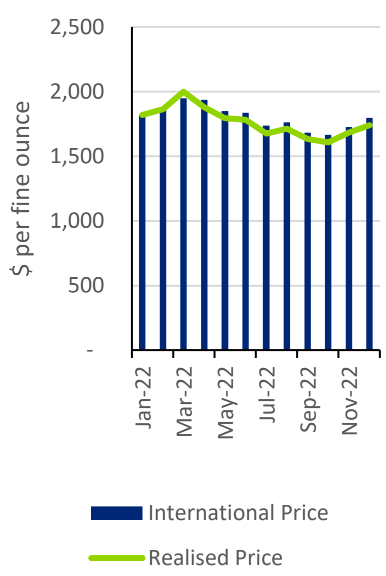
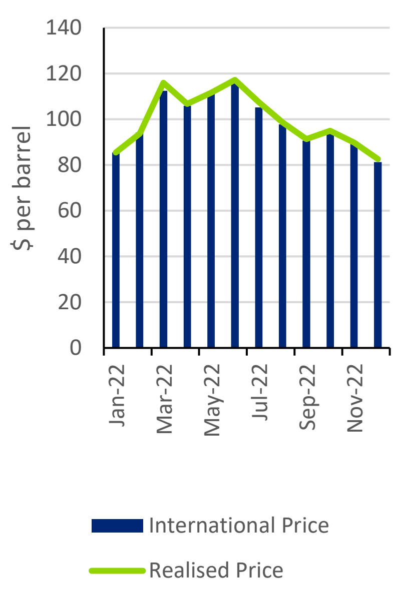
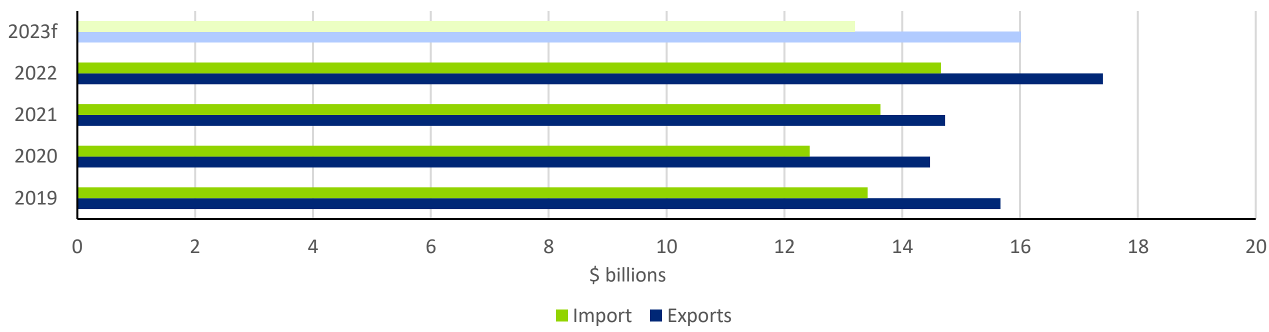


Figure 14: Crude Oil (Brent) Price Trend (2022)



Source: Bank of Ghana

Figure 15: Export earnings outpaced costs associated with imports in 2022. This is expected to remain the case in 2023.



Sources: Bank of Ghana and Sarpong Capital Research

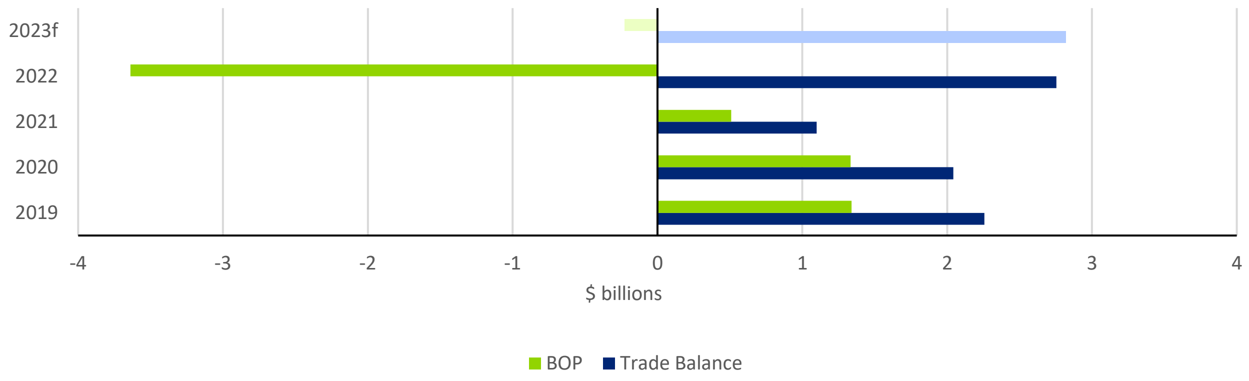
Our expectations for 2023 are export earnings totalling $16.0 billion and import spending of at least $13.2 billion, both lower than 2022 on account of lower crude oil prices impacting both crude oil revenues and petroleum product import costs. Both exports and imports will also be impacted by the gold for oil programme skewing export earnings whilst reducing petroleum product direct charges. We expect a positive trade balance above $2 billion similar to 2022 by the end of the 2023 financial year.

Current Account, Capital & Financial Accounts and Balance of Payments

In view of the global macroeconomic terrain and higher commodity prices, Ghana's current account was positively boosted by the trade surplus, alongside higher remittance inflows. The Country's capital & financial accounts however came under pressure on account of reduced FDI inflows and elevated debt service obligations. Consequently, a balance of payments deficit of $3.6 billion was recorded in 2022. Our expectation of a lower balance of payments deficit of $0.2 billion for 2023 is largely due to drastic reduction in external debt related payments for the year, given current engagements with creditors on debt restructuring.

Government finances will continue to face pressure as revenues remain subpar and foreign exchange inflows remain insufficient. The Country's immediate constraints will ease once debt restructuring and IMF relief processes complete.

Figure 16: A reduction in external debt related payments to improve Ghana's external position in the near term



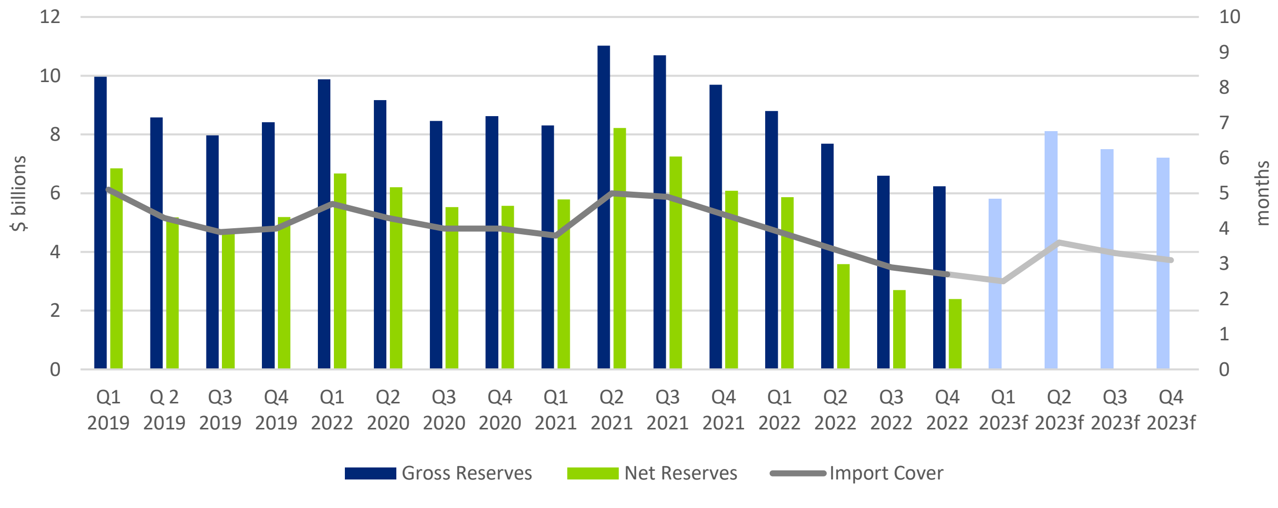
Sources: Bank of Ghana and Sarpong Capital Research

Reserves

The reserves position is the combined effect of global price pressures, Ghana's import dependence, debt service costs and FX interventions, at an unusual time where the Country was unable to access the international capital markets in 2022. Gross international reserves declined to $6.2 billion by the end of 2022 (2021-end $9.7 billion) representing only 2.7 months of imports. Net international reserves stood at an abysmal $2.4 billion.

Our outlook in 2023 for reserves is driven by expectations that the Country's trade balance will be upheld, outflows for debt serving will decline and the IMF bail-out funds will be disbursed to Ghana. Barring any adverse global macroeconomic shocks impacting trade, an unsuccessful external debt restructuring or a delay to the start of an IMF bail-out we estimate a Q1-end 2023 end reserves position of $5.8 billion, and expect a Q2-end position of $8.1 billion, a Q3-end position of $7.5 billion and a year-end close of about $7.2 billion in reserves. The impact of the Gold for Oil Programme on foreign exchange liquidity cannot be underestimated.

Figure 17: Ghana's international reserves position should improve early on in Q2 2023



Sources: Bank of Ghana and Sarpong Capital Research

GDP and the Real Sector

Ghana's gross domestic product (GDP) growth in 2022 was subdued, mirroring global macroeconomic headwinds, liquidity crunch, inflationary pressures and high funding costs which stifled growth in various industries. According to the Ghana Statistical Service's provisional figures, Ghana's GDP grew by 3.1% year-on-year in real terms in 2022, to approximately GHS 180 billion. Without the applied impact of price pressures, GDP grew by 32.2% year-on-year to approximately GHS 610 billion in nominal terms.

Following encouraging numbers from 2021 and as Ghana emerged from the worst of the pandemic, expectations were that 2022 progress will catapult the economy back to pre-pandemic performance. The Bank of Ghana's real Composite Index of Economic Activity (CIEA) however contracted by 6.2% in 2022 compared with a 5.0% growth in 2021. Disaggregating GDP on a quarterly basis and by sector - Agriculture, Industry and Services, performance in 2022 stood lower than 2021. Particularly impacted is the Industry sector which was affected by sluggish demand, high cost of operations, a weaker currency that constrained raw material imports and elevated funding costs.

Table 4: Real GDP Trend

	2019	2020	2021	2022	2023f
Q1	5.9%	6.4%	3.6%	3.0%	
Q2	9.1%	-5.6%	4.2%	4.7%	
Q3	5.3%	-3.3%	6.5%	3.1%	
Q4	6.0%	4.3%	7.0%	3.7%	
Annual	**6.5%**	**0.8%**	**5.3%**	**3.1%**	**2.8%**

Sources: Ghana Statistical Service, bank of Ghana and Sarpong Capital Research

Agriculture

Performance of Agriculture in 2022 was supported by expansion of the fishing, livestock, forestry & logging and crops & cocoa segments (on account of increased cocoa output for export). In 2023, we expect Cocoa to continue as the main driver of growth, with steady demand driving performance of crops, livestock and fishing to maintain the segment's output.

Table 5: Agriculture Real GDP Trend (2019-2023f)

	2019	2020	2021	2022	2023f
Q1	6.2%	10.2%	6.6%	4.6%	
Q2	5.2%	5.6%	11.9%	4.0%	
Q3	4.5%	3.2%	7.6%	4.6%	
Q4	3.0%	9.2%	8.2%	3.6%	
Annual	**4.7%**	**7.3%**	**8.4%**	**4.2%**	**3.4%**

Sources: Ghana Statistical Service, bank of Ghana and Sarpong Capital Research

Industry

Industry performance was led by mining & quarrying activity through the year given renewed interest and investment in gold mining. Performance of the sector was however constrained by contractions in manufacturing, construction, and utilities segments for most quarters with the exception of Q2, where some year-on-year expansion was seen.

Table 6: Industry Real GDP Trend

	2019	2020	2021	2022	2023f
Q1	8.1%	1.4%	-0.3%	-0.2%	
Q2	13.9%	-6.3%	-6.3%	4.3%	
Q3	4.3%	-7.0%	-1.6%	1.0%	
Q4	-0.3%	2.5%	4.8%	-1.0%	
Annual	**6.4%**	**-2.5%**	**-0.8%**	**0.9%**	**1.7%**

Sources: Ghana Statistical Service, bank of Ghana and Sarpong Capital Research

Services

The services sector continues to be driven primarily by the information & communication segment in addition to education, health & social work, transportation & storage, finance & insurance and public administration. Whilst the hospitality segment expanded marginally in the first half of the year, prevailing economic headwinds quickly overturned this sub-sector impacting growth negatively. This was also seen in the professional support and personal service segments reflecting tighter purses as well as real estate, hospitality and trade of vehicles & household goods.

Table 7: Services Real GDP Trend

	2019	2020	2021	2022	2023f
Q1	4.3%	10.6%	5.5%	4.9%	
Q2	6.2%	-9.2%	10.9%	5.2%	
Q3	7.5%	-3.1%	13.6%	4.3%	
Q4	12.5%	4.3%	8.1%	7.6%	
Annual	**7.6%**	**0.7%**	**9.4%**	**5.5%**	**3.9%**

Sources: Ghana Statistical Service, bank of Ghana and Sarpong Capital Research

Looking ahead, economic growth projections for 2023 present a grim picture as Ghana pauses to wade through fiscal consolidation challenges and repositions for more positive years ahead. The government expects a GDP growth of 2.8% for 2023. In addition, the World Bank and IMF project a real GDP growth of 2.3% following revisions to the global and regional outlook. Expectations are that fiscal adjustment of the debt restructuring in addition to existing global headwinds will impact ability of operators in various sectors to grow markedly.

Our real sector outlook is characterised by constrained liquidity, highlighting the fact that any anticipated growth and increase in output will be driven by increased consumption of essential goods and services. Infrastructure development or Government initiatives to stimulate the economy, where fiscally possible or possible by way of public-private partnerships particularly in the areas of agriculture, construction and healthcare, are also expected to positively impact performance.

Table 8: Outlook on Various Economic Segments

	Sub-segments	Expected to thrive	Expected to be relatively stable	Expected to require support	Our View
Energy and Natural Resources	Oil & Gas (Upstream, Refining and Services)	•			Lower global crude oil prices are expected for 2023 which will impact earnings. In addition, persistently elevated costs will subdue operator bottom lines.
	Metals & Mining	•			Continued global competition and elevated price levels for mined commodities, particularly gold will continue to present opportunities for operators in this segment. The Bank of Ghana's drive to buy gold for reserves, alongside Government's gold for oil programme will limit produce available for export.
	Power Generation		•		Ability to ensure cost reflective tariffs is essential to mitigating the impact of soaring operating costs associated with power generation including dollar denominated gas costs.
	Forestry and Products			•	Success factors are tied to off-taker agreements. Segment has struggle to recover post-covid.
	Alternative Energy	•			Households and businesses may seek affordable alternative sources given higher overall energy prices, creating some market depth.

Technology, Media and Telecommunications	Broadcasting		•		Segment to remain largely stable with high cash flow requirements for operations.
	Advertising		•		Advertising opportunities to be concentrated around consumer goods, in line with economic growth expectations. The segment continues to require strong cash flows, though the shift to digital advertising may not require intensive capital.
	Film and Entertainment			•	Cash flow intensive and in need of support framework, though unlikely to receive much attention from government in 2023 given fiscal constraints.
	Print Media			•	Cash flow intensive with a negative outlook given increasing reliance on digital media sources.
	Sports and Entertainment			•	Sports segment to experience a lull following the recent world cup outing, as well as low investment levels from government or private sector. The entertainment segment will also be negatively impacted by general liquidity constraints.
	Data and Telecommunications	•			Though revenue from increased data dependence may not match lost voice revenue, the segment continues to benefit from scale and migration of more services to digital platforms.
Financial Institutions and Real Estate (Developers & Managers)	Banking			•	The banking segment is expected to be negatively impacted by the debt exchange programme, putting further pressure on liquidity, capital adequacy and profitability ratios in 2023. CAR declined to 16.6% in 2022, though remaining above the 13% prudential minimum stands 300bps lower than the prior year given mark-to market losses. This is expected to further deteriorate when the full impact of the domestic debt exchange programme reflects. Efforts to diversify portfolios and lend to viable real sector ventures are also expected even with cash reserve requirement constraints and lower customer savings. Non-Performing loans to remain elevated above 13%.
	Insurance			•	Increased insurance uptake to cushion the impact of risks crystalising may be seen. However, insurance companies may struggle to meet big ticket claims given liquidity constraints that the domestic debt restructuring will bring as insurer's investment portfolios are skewed to government securities.
	Savings & Loans		•		An increase in small loan applications is expected in view of sluggish economic activity. Savings levels will also be impacted by lower disposable income.
	Broker Dealers			•	Innovation is required to maintain strong trading income levels, particularly in relation to foreign exchange and fixed income trading. Post-debt exchange, relative stability of FX rates in 2023 versus 2022 volatilities, will reduce earnings.

	Asset Managers		•		Creative investment strategies are required to ensure significant value is not eroded, given the squeeze in real returns.
	Financing Vehicles (REITs, etc)			•	Average volume of transactions expected to decline as market participants remain cautious of risk/return dynamics in addition to the liquidity crunch.
Industrial and Manufacturing	Construction	•			Government steered infrastructure development will boost the segment, albeit marginally. An increase in Public-Private Partnerships will be seen for infrastructure projects. Lingering supply disruptions and price volatility of iron ore and steel from major supplier Ukraine, may continue to constrain activities. This is in addition to elevated finance costs for projects.
	Chemicals	•			Tepid rebound of manufacturing processes that require chemicals continues to impact this segment. However, lower global oil & gas prices expected in 2023, alongside initiatives for more local production vs imports may boost manufacturing of chemicals.
	Agri-Processing	•			Global supply chain challenges and reduced import ability as a nation will drive increased local production processes.
	Packaging	•			The packaging segment will thrive on the back of local manufacturing drive.
Consumer Business and Transportation	Retailers (including Supermarket chains and Oil & Gas Retail Outlets)			•	Higher cost of goods and operating expenses will continue to impact this capital/cash flow intensive segment. Financing will be required amidst lower demand and smaller sales margins.
	Travel, Leisure and Hospitality			•	These sub-segments still haven't recovered from pandemic-induced lulls and subdued economic activity. Inflationary pressures also have a significant impact on operating expenses. Thus, margins will continue to be stifled in the short-term also considering tighter social purses.
	Transportation (including Aviation & Haulage Business)			•	Though improved volumes/activity have been seen compared to pandemic levels, high operating costs threaten operators. The bulk of costs will continue to be passed to consumers in an already constrained purchasing power environment.
	Fast Moving Consumer Goods, Food, Beverage and Breweries	•			Stable demand for essentials continues to uphold these segments, though a squeeze in margins will be noted as cost of goods, finance costs and operating expenses remain elevated.
	SMEs			•	Evolution of businesses will be in line with demand realities. Operators must follow consumer spending patterns as a guide to product/service offerings. Leverage on technology will also be instrumental to survival.

Agriculture	Crops	•			Priority segment with a view to improving food security will be upheld by government and development finance initiatives spanning input finance, off-taker arrangements, irrigation projects, building of storage facilities and transportation.
	Livestock	•			Priority segment with a view to improving food security will be sustained by government and development finance initiatives. With a variety of livestock produce being staples with steady consumption, demand levels are expected to be upheld.
	By Products		•		Off-taker arrangements will be instrumental to agriculture by-product output, survival and expansion.
Public Sector and Capital Products	Utilities		•		Government support to keep utility providers afloat. Introduction of more Bulk Supply Points and upgrading of power lines to improve transmission capacity are expected.
	Education		•		Government initiatives will uphold the education sector. In view of recent dissatisfaction with government's ability to fulfil commitments of free schools, the private education sub-segment will see increases in participation levels at the low fee-paying level. Mid-higher end fee institutions to remain stable.
	Airports		•		Improved passenger travel, particularly regional visitors to largely uphold airports and associated services.
	Seaports and Harbours		•		Trade activity is expected to remain relatively at par with 2022, thus upholding this segment.
	Railway		•		
	Non-Profits			•	Constrained funding and allocation globally and locally may impact activities.

Source: Sarpong Capital Research

Rate Environment

Inflation

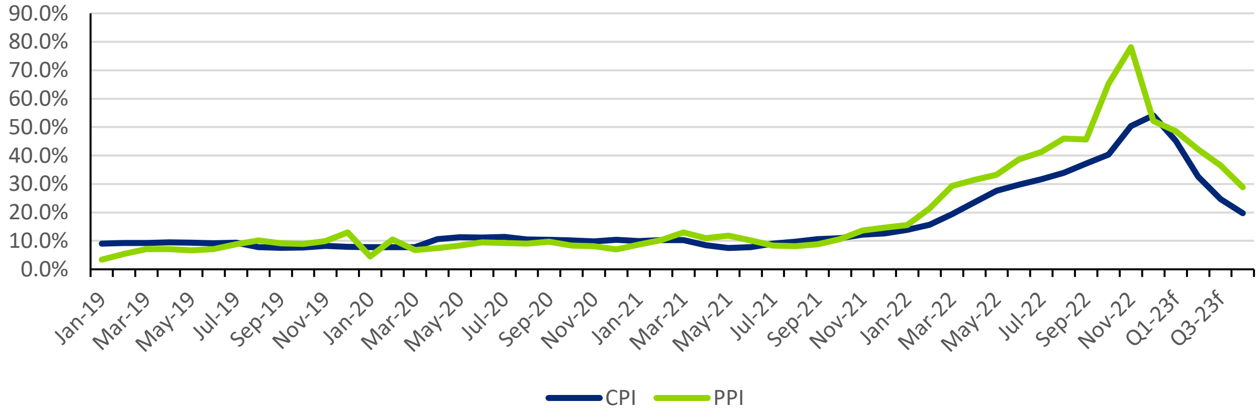
Inflationary pressures severely impacted the global macroeconomy in 2022. Countries have been hard hit on many fronts. Tepid recovery from the COVID pandemic, coupled with lingering supply change challenges and fall-outs from the Russia/Ukraine war which began in February 2022, price pressures have soared. Notably, sharp rises in energy prices and the overall cost of doing business have impacted governments, businesses and households alike with spikes in operating and funding costs. Accordingly inflationary pressures soared in countries globally. Ghana has not been insulated given import dependence. Imported inflation from global supply chain disruptions impacting both retail and manufacturing segments, higher energy prices, and a depreciating currency, have resulted in steady year-on-year increases. This is in addition to elevated cost of local food production and utility prices which have been passed on to consumers, alongside demand for higher wages to better cope with elevated costs.

From 13.9% in January 2022, consumer price inflation soared to 54.1% year-on-year by December 2022. Sharp rises in consumer prices were noted throughout all regions of Ghana and across all components of the inflation measurement basket. Imported inflation as at the end of December 2022 stood at 61.9% year-on-year, while inflation on local goods stood at 51.1%. Similar trends were seen with food and non-food inflation at 59.7% and 49.9% respectively. Non-food inflation figures were driven by housing, utilities, fuels, transportation and household furnishing price rises.

In the same vein, the 2022 surge in the producer price index was particularly exacerbated by depreciation of the Ghana Cedi and the increase in global oil prices impacting operating costs and further disrupting an impaired supply chain that was in recovery from the pandemic. Changes to the Producer Price Index accelerated, rising sharply from 15.6% year-on-year in January 2022 to 78.1% year-on-year in November 2022 before finally slowing to 52.2% in December, an encouraging sign given the typical pass-through effect to consumer price inflation.

Subsequent to year-end, consumer price inflation slowed to 45% in March 2023. Imported inflation trended down to 51.6% year on year while inflation on domestic goods also lowered to 41.9%. Food inflation was also down at 50.8% from 61.0% in January 2023 while non-food inflation eased to 40.6% from 47.9% in January 2023. In the same vein, Ghana's latest producer price inflation (February 2023) also slowed to 50.8%. While we expect inflationary pressures to persist in the first half of 2023, a further decline is broadly expected over the coming months. We expect consumer price inflation to nonetheless remain above Government's target of 8±2%. Any slowdown in inflation is likely to be on account of the translation effect of peaking global inflation, lower energy/transport costs locally and overall slower jumps in year-on-year prices from the base effect of 2022 prices.

Figure 18: While upside risks to inflation persist, some year-on-year tapering is expected in 2023 though not sufficient to return to pre-pandemic levels.



Sources: Ghana Statistical Service and Sarpong Capital Research

We note that rate hikes aimed at reigning in inflation have arguably had limited success. Thus, in the case of Ghana, any sustained reduction in price pressures will be dependent on implementing policies which boost local production *vis a vis* imports. For instance, the ban on rice importers from accessing official foreign exchange windows will reduce import reliance. The ban must however be followed with initiatives to ramp up local production, milling capacity and quality. Economic growth, enhanced domestic production and improved exports remain the most sustainable way to reduce price pressures.

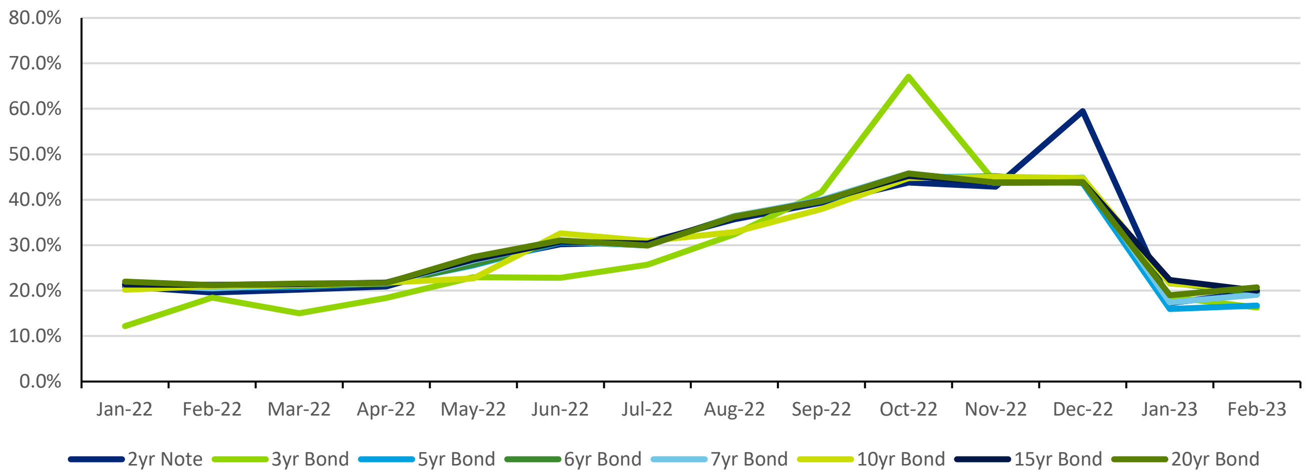
Interest Rates

Governments around the world have introduced unprecedented hawkish monetary policies to check soaring inflationary pressures. Ghana raised its policy rate five times in 2022 a cumulative increase of 1250 bps from 14.5% at the start of the year to 27% by the end of 2022, in a bid to manage price pressures and the rapid erosion of real returns. The monetary policy committee subsequently hiked the prime rate by a further 100bps in January 2023 to 28% and 150bps in March 2023 to 29.5%.

Initially, lending rates drifted upward, with changes pronounced and centred around shorter-dated securities where market activities were concentrated in the secondary market. The spike in rates also extended to Ghanaian Eurobonds which also reflected deteriorating Country Risk. Rates in the secondary market for domestic issuances reached historic highs of 60% plus for the 2-year GOG note and 3-year bond in 2022. On the back of higher inflation, real returns were thrown into negative territory. Whilst negative real returns are largely the current norm globally, in this case, risks are accentuated on account of the Country's constrained ability to shore up the declining value of the Cedi. This is in addition to any strengthening noted in the US economy and dollar that inadvertently has adverse effects on markets such as Ghana.

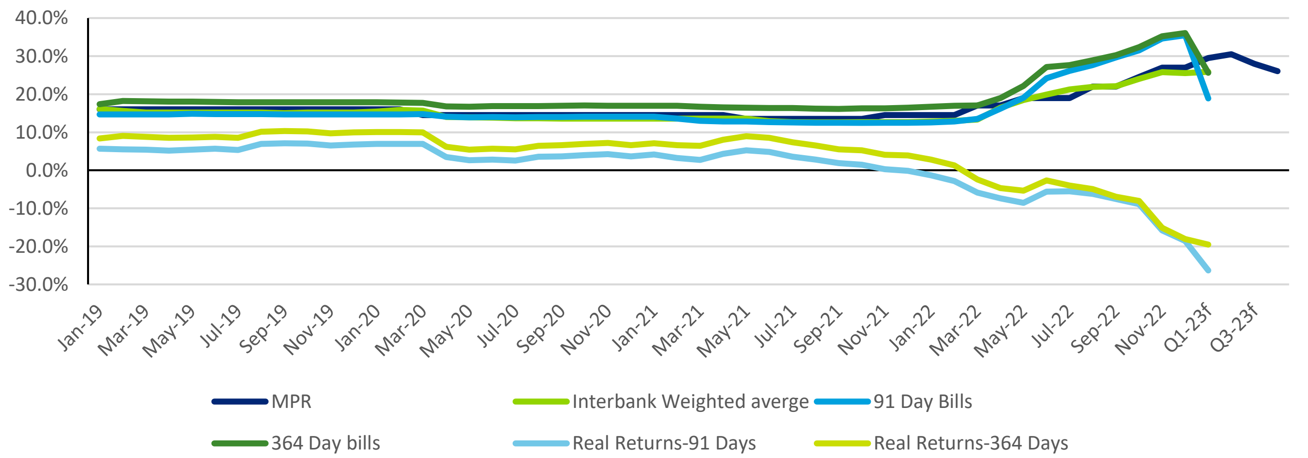
Following the February 2023 completion of the Domestic Debt Exchange Programme, a lower interest rate environment for government securities was ushered in. The government places the average coupon on the old bonds at 19.1% and at 9.1% for the newly issued bonds. Concurrently, rates on securities have dipped significantly, particularly shorter-dated instruments.

Figure 19: Rate shifts noted in Q1 2023



Sources: Bank of Ghana and Sarpong Capital Research

Figure 20: Unfavourable real returns remain the trend



Sources: Bank of Ghana and Sarpong Capital Research

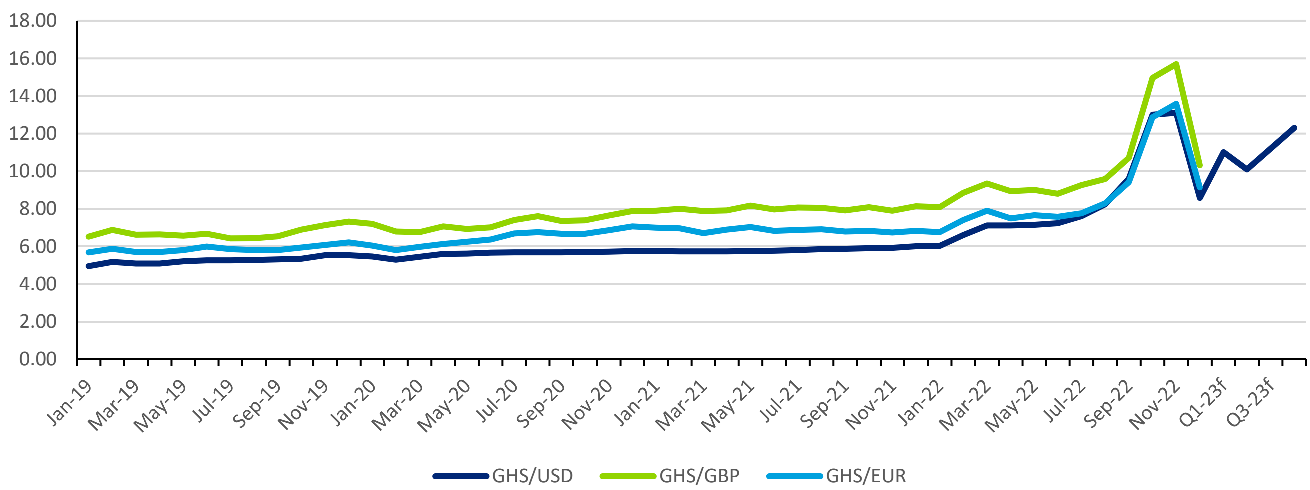
Considering the limited impact of rate hikes on controlling inflation in Ghana, alongside expected economic slowdown, we expect a more accommodative stance in H2 2023. In addition, the Government's debt exchange programme is expected to support a lower interest rate regime having recently settled investors with lower yield domestic bonds that account for about half of the value of domestic securities in issue. We however believe that the Domestic Debt Exchange Programme has wider reaching implications such as breaking the interest rate transmission corridors and disconnecting MPR from bond yields.

Exchange Rates

The accentuated susceptibility of import-dependent nations to global price volatilities is at an all-time high, with widening inflation differentials severely impacting currency depreciation in these markets. Indeed, the Cedi has lost significant value against the US Dollar in the last 18 months. Weaker macroeconomic fundamentals, fiscal constraints, dwindling international reserves and inability to access the international capital markets in 2022 to complement foreign currency earnings have all contributed to depreciation of the Cedi. On the official interbank market, January 2022 exchange rates averaging GHS6.02 per USD slipped to GHS 13.10 per USD by November 2022. Following announcements of a staff level agreement with the IMF in December 2022, the Cedi appreciated to GHS 8.00 per USD but subsequently returned to GHS 11.00 per USD at the end of March 2023. The Government's ability to support corporate demand by spot market interventions has been stifled. Premiums on the interbank rates as high as 20% have been seen on the parallel market and other FX trading avenues in recent months.

Our expectations of exchange rates are hinged on Ghana's macroeconomic path charted for 2023. In this vein, expected reduction in immediate foreign currency obligations particularly debt service costs alongside expected IMF bailout funds when concluded in Q2, will shore up reserves by the end of H1 2023 and ease currency pressures. However, there is a likelihood for the real market to drive rates upward in the second half of the year. Unlike the first half of 2022, with less momentum from foreign investors for the Government of Ghana bonds given lower interest rates post domestic debt exchange programme, a lower supply of dollars in the market is expected. On the other hand, the Bank of Ghana's decision to stop providing foreign exchange support for the importation of certain essential goods will cause those importers to purchase dollars at a higher price, thus raising demand trends in the open market. With there still being a long way to organically improve macroeconomic fundamentals particularly output, exports and fiscal consolidation, some deterioration will be seen in the second half of 2023, though not as marked as seen in 2022. This is barring any significant adverse global headwinds.

Figure 21: Currency volatilities are expected to be present for most of the year, though not as marked as 2022



Sources: Bank of Ghana, Industry Operators and Sarpong Capital Research

Traders' Perspectives

Fixed Income

In Ghana, the traded volume of fixed income securities fell in 2022. Traded volume declined by 9.7% to GHS 188.5 billion compared with GHS 208.8 billion at the end of December 2021. Macroeconomic and global economic headwinds, such as credit rating downgrades that resulted in the closure of Ghana's access to the international capital market, tightening domestic financing conditions, and increasing cost of borrowing enforced by the rapid depreciation of Ghana cedis, triggered investors' aversion. For the 2-year, 5-year, 7-year, 10-year, and 15-year Ghana government bonds, there were increases in the yields, and the pattern was sustained from Q1 to Q2 of 2022. The 2-year government of Ghana bond yield increased to 59.49% in December 2022 as compared with 20.78% in December 2021. On the other hand, the 5-year government of Ghana bond ended 2021 year at 21.01% and increased to 43.68% at the end of 2022 in December. 7-year bond was stable in the first quarter, where it ended the year 2021 at 21.01% in December to 21.28% at the end of the first quarter in March, and the hiked to 30.84% at the end of the second quarter and increased further to 44.93% at the end of the year 2022 in December. The 10-year bond increased to 44.75% in December 2022, and 15-year bond increased by 22.45% from 21.38% at the start of the year 2022 to 43.83% at the end of the year.

Interest rates on treasury bills in particular, increased for 91-day bills from 12.49% in December 2021 to 35.48% in December 2022 and for 182-day bills from 13.19% to 36.23%. The 364-Day bill rate, on the other hand, went up from 16.70% in December 2021 to 36.06% in December 2022.

By Q3 2022, most investors were already reluctantly examining the potential timing and format of the debt restructuring exercise after many months of expecting the Country would be able to increase its revenue streams and tighten its fiscal policies to escape an impending balance of payments crisis. Beginning in 2023, the bond market was lifeless as investors sat on the fence amidst uncertainty about the debt exchange program.

Following the launch of the domestic debt exchange program to exchange GHS 137.3 billion of domestic notes and bonds of the Republic, E.S.L.A. Plc and Daakye Trust Plc for a package of new bonds with a 0% coupon in 2023 that steps up to 5% in 2024, and 10% from 2025 onwards, there was an increase in bond supply in both the primary market and secondary market due to interest rates, which peaked in Q4 and was noticeable in 2-year, 5-year, 7-year, and 15-year bonds.

Figure 22: 2-Yr Old Domestic Bond Yield Trend (%)

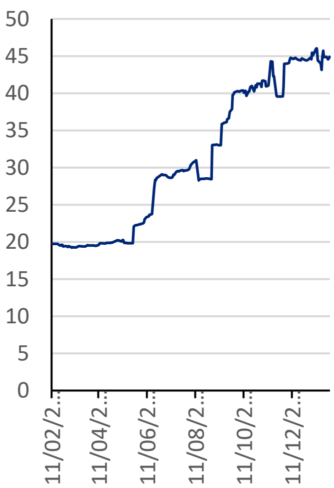


Figure 23: 5-Yr Old Domestic Bond Yield Trend (%)

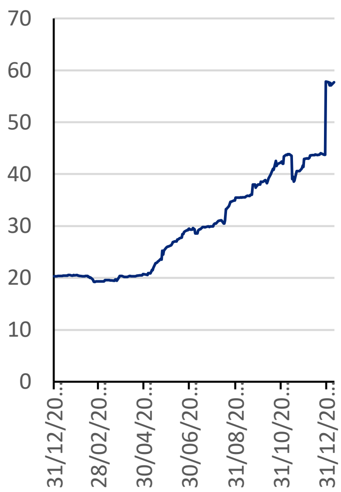
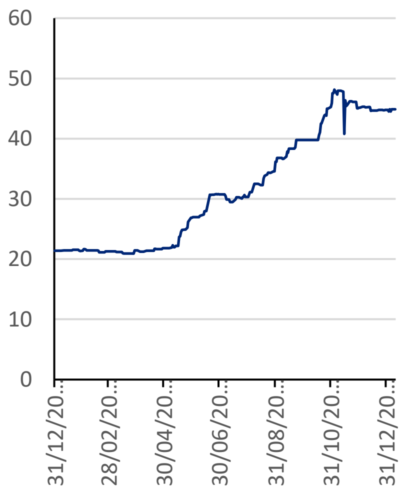


Figure 24: 15-Yr Old Domestic Bond Yield Trend (%)



Source: Sarpong Capital Markets

For Eurobonds, the Ghana Eurobond market saw volatility through 2022 as austerity measures and the passage of the e-levy bill led to an increase in value across the curve. However, global macroeconomic headwinds dragged down performance. For instance, in March 2022, liquidity at the front end for Ghana Eurobonds was a struggle. The interest was seen mainly across the Nigerian curve and Angola front-end. With widespread rate hikes, their rates remained around the same as the local papers and continued to demonstrate significantly less volatility than the Ghanaian Eurobond papers. Ghana's Eurobonds value appreciated across the curve as commodities and oil prices continued to surge on world markets. The rates on 3-year Eurobonds rose from 11.56% at the beginning of 2022 to 63.27% in November. 5-year Eurobond rates rose from about 11.22% at the end of 2021 to about 49.89% in December while the yield on the 7-year Eurobond rose from 11.44% at the beginning of 2021 to 36.86% at the start of 2023.

There is improving confidence that Ghana would reach an IMF agreement now. Until the program gets fully underway, we anticipate that there would continue to be a lull in the market. investors' aversion will thus be sustained this year in addition to overall tight external market conditions. In 2023, we therefore expect money market securities to gain more traction, which might trigger demand-driven higher interest rates for such securities. Any delays in obtaining IMF funds, however, would endanger Ghana's diminishing net international reserves and increase the likelihood of a disorderly debt crisis with more serious economic repercussions.

For other regional markets, measured approaches will be taken. For instance, some rallying has been noted for Nigeria's bonds following the presidential elections of February 2023, though sustained indications of direction won't emerge till after successful swearing-in of the President-elect and formation of a cabinet, barring no protracted election tribunal processes. For Kenya, despite the fact that Kenya's bonds might be regarded as standard, investors are still sceptical about how this year would turn out on account of the Country's debt woes. Therefore, the forecast for the Eurobond market at this time is shaky. We expect implementation of fiscal consolidation initiatives in the second - third quarters of 2023 to address debt sustainability issues, and will probably see improved market activity later in the second half of the year.

Equities

Activity in the Ghanaian equities market has largely been driven by select names in the Financial Services, Information and Communications Technology, Mining and Manufacturing sectors in recent years. Growth and indeed market depth have been impacted by a persistently subdued level of listed issuances and selective investor participation.

Over the last decade, annual trade volumes have fluctuated in line with macroeconomic fundamentals and investor sentiments. Market capitalisation has also demonstrated some lethargy. Encouragingly, trade volumes in 2022 accounted for 12% of cumulative volumes since 1990. Total trade values for 2022 accounted for 22.2% of cumulative trade values for the same period.

At the end of 2022, market capitalisation of the Ghana Stock Exchange (GSE) amounted to GHS 64.5 billion, comprising some 37 issuers including 6 listed companies on the Ghana Alternative Market (GAX). Mining sector shares account for just over half of the Exchange's market capitalisation while the Finance sector continues to account for just over half of the 47.1 billion shares in issue. Market capitalization was generally upheld by Mining sector, Finance sector and ICT issuers which accounted for 56%, 21% and 17% respectively. During the year, Asante Gold Corporation increased its number of shares in issue reflecting demand-driven changing dynamics of the mining sector

With respect to trade volumes, there continues to be a skew in activity. For instance, ICT operator MTNGH lead volumes with approximately 1.3 billion, accounting for some 95.3% of total traded volume in 2022.

Considering some equity trade patterns by investor type, we note that of the 24.6 billion shares held with the Central Securities Depository (CSD) at the end of December 2022, 67.4% or 16.6 billion were held by foreign investors. The Ghanaian equities market has not been immune to the general macroeconomic headwinds, triggering pessimistic investor sentiments.

Table 9: CSD Volumes and Values Trends (GHS millions)

	2021	2022
CSD Equities Purchased - Foreign	349.6	469.2
CSD Equities Sold – Foreign	365.3	597.2
Net Foreign Flow	*-4.5%*	*-27.3%*
CSD Equities Purchased -Domestic	170.5	317.0
CSD Equities Sold - Domestic	154.8	189.0
Net Domestic Flow	*9.2%*	*40.4%*

Source: Central Securities Depository

Performance wise, 2022 was a tough year for corporates, particularly the second half of the year with rising operating and finance costs. Stock performance leaders include:

Table 10: Stock performance leaders (2022)

	1	2	3	4	5
Share Price Leaders	AGA GHS 37.00	SCB GHS 20.16	TLW GHS 11.92	ASG GHS 8.87	EGH GHS 6.64
Share Price Change Leaders	SIC 287.50%	TBL 135.29%	ACCESS 27.30%	BOPP 15.04%	EGL 14.70%
Dividend Yield Leaders	ACCESS 19.77%	CAL 16.92%	SIC 14.84%	BOPP 14.78%	GCB 12.69%
EPS Leaders	AGA GHS 32.38	AADS GHS 9.81	BOPP GHS 4.45	MAC GHS 3.17	EGH GHS 2.44
P/E Ratio Leaders	GGBL 119.25%	ADB 31.49%	SCB 9.56%	EGL 5.09%	GOIL 4.88%

Source: Ghana Stock Exchange

Financial performance of key listed operators are further highlighted below.

MTN GHANA Group (Information and Communications Technology)	**FY 2021**	**FY 2022**
Total Assets (GHS billions)	17.5	22.1
Revenue (GHS billions)	7.7	9.9
Cost of Services/Hardware (GHS billions)	1.4	1.5
Operating Expenses (GHS billions)	3.2	4.4
Net Finance Costs (GHS billions)	0.4	0.3
PBT (GHS billions)	2.8	4.1
Revenue Growth	*28.0%*	28.4%
Cost-to-Gross Profit	*49.5%*	52.7%
Pre-Tax Return on avg. Equity	*74.0%*	81.4%
Pre-Tax Return on avg. Assets	*17.9%*	20.1%

Sources: Ghana Stock Exchange and Operator Financial Statements

Access Bank Ghana (Banking)	**FY 2021**	**Q3 2022 (Unaudited 9 months)** Ratios are annualised
Total Assets (GHS billions)	7.5	10.6
Loans & Advances - Customers (GHS billions)	1.2	1.8
Total Deposits (GHS billions)	5.2	6.9
Interest Income (GHS billions)	0.7	0.7
Non-Interest Income (GHS billions)	0.4	0.3
Operating Expenses (GHS billions)	0.2	0.2
Impairment Charge (GHS billions)	0.1	0.03
PBT (GHS billions)	0.5	0.3
Net Interest Spread	61.8%	58.8%
Cost-to-Operating Income	31.2%	30.0%
Pre-Tax Return on avg. Equity	41.5%	65.3%
Pre-Tax Return on avg. Assets	7.5%	5.3%

Sources: Ghana Stock Exchange and Operator Financial Statements

Guinness Ghana (Beverage)	FY 2021 (June year-end)	FY 2022 (June year-end)
Total Assets (GHS billions)	0.9	1.1
Revenue (GHS billions)	1.1	1.3
Cost of Goods Sold (GHS billions)	0.8	1.0
Operating Expenses (GHS billions)	0.2	0.2
Net Finance Costs (GHS billions)	0.02	0.02
PBT (GHS billions)	0.1	0.01
Revenue Growth	31.4%	17.6%
Cost-to-Gross Profit	61.6%	87.2%
Pre-Tax Return on avg. Equity	29.9%	2.7%
Pre-Tax Return on avg. Assets	12.6%	1.0%

Sources: Ghana Stock Exchange and Operator Financial Statements

TOTAL (Downstream Oil & Gas Group)	2021	2022
Total Assets (GHS billions)	1.1	1.7
Revenue (GHS billions)	3.2	5.7
Cost of Goods Sold (GHS billions)	2.9	5.2
Operating Expenses (GHS billions)	0.2	0.3
Net Finance Costs (GHS millions)	2.8	-20.6
PBT (GHS millions)	148.8	218.2
Revenue Growth	*34.8%*	76.3%
Cost-to-Gross Profit	*64.1%*	57.3%
Pre-Tax Return on avg. Equity	*38.8%*	47.6%
Pre-Tax Return on avg. Assets	*14.6%*	15.8%

Sources: Ghana Stock Exchange and Operator Financial Statements

As Ghana's debt restructuring efforts come to a head, we are likely to see more activity on the equities market as focus shifts away from government securities to bankable real sector investments. As entities navigate the evolving macroeconomic terrain, financial performance will be impacted by the myriad of challenges currently being faced by Ghana and globally. Real sector corporates will see sluggish consumption with high finance costs and operating expenses, all impacting profitability. Financial services entities on the other hand will feel the impact of government debt restructuring on liquidity and interest income in the near term in the event that little or no interest payments are made on exchanged securities in 2023. This is in addition to overall operating expense pressures. Subdued profitability already noted for 2022 across sectors is expected to affect equity pricing and also constrain organic growth. Positively, renewed focus on private sector bankable investments given the unattractive outlook on Government's fixed income instruments will drive funding for real sector corporates (particularly for mining, commodities, manufacturing and agro-processing related ventures), thus enhancing performance. Keen watch would thus be on inflationary pressures, exchange rates, the interest rate environment, trade and consumer demand patterns as well as economic growth signals.

Summary of Outlook

In our 2022 outlook, we noted that events in the year will test the Ghanaian economy's resilience. As we watch, wait and steer through 2023, investors and the general public will have to creatively navigate the economic environment to derive value from opportunities in the midst of uncertainties.

Globally, key expectations include

- Inflationary pressures will peak very early on in the year in key economies and start to abase, barring no further global macroeconomic, health or energy shocks.
- Economic lull in the first half of the year as economies navigate the lingering challenges of cost pressures and low demand of 2022, with growth signals expected for the second half of the year.
- Tightening monetary policies in the first half of the year.
- Minimal escalation of geopolitical conflicts.
- China reopening to uphold global crude oil demand, with prices expected to decline to between $70 pb and $80 pb
- Debt capital markets to remain sluggish with tight liquidity for 2023.
- EM Investors to rely less on government securities and actively seek viable real sector opportunities.

Locally, key expectations include

- Subdued economic growth.
- IMF programme to commence in Q2 2023.
- Efforts towards fiscal consolidation will impact government spending and capital expenditure.
- Price pressures to linger.
- Rate hikes expected early in the year with subsequent easing anticipated for H2 2023.
- Elevations in interest rates globally will continue to constrain international capital market access

Overall, 2023 will be an instrumental year for Government to lay the foundation for economic recovery and growth from 2024. The current government is expected to have strong political will to implement growth-oriented initiatives and much needed structural reforms, in a bid to reclaim points ahead of general elections slated for later in 2024.

Disclosures Appendix

Regulatory Disclosure:

This research report has been prepared by Sarpong Capital Research, which is part of Sarpong Capital Markets, a division of Sarpong Capital. Sarpong Capital is authorised and under the supervision of the Securities and Exchange Commission in Ghana.

Analyst Certification Disclosure: The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject-matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

Global Disclaimer: Sarpong Capital and or its affiliates ("SC") makes no representation or warranty of any kind, express, implied or statutory regarding this document or any information contained or referred to on the document. The information in this document is provided for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices, or represent that any such future movements will not exceed those shown in any illustration. If any, the stated price of the securities mentioned herein is as of the date indicated and is not any representation that any transaction can be effected at this price. While all reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors of fact or for any opinion expressed herein. The contents of this document may not be suitable for all investors as it has not been prepared with regard to the specific investment objectives or financial situation of any particular person.

Any investments discussed may not be suitable for all investors. Users of this document should seek professional advice regarding the appropriateness of investing in any securities, financial instruments or investment strategies referred to on this document and should understand that statements regarding future prospects may not be realised. Opinions, forecasts, assumptions, estimates, derived valuations, projections and price target(s), if any, contained in this document are as of the date indicated and are subject to change at any time without prior notice.

Our recommendations are under constant review. The value and income of any of the securities or financial instruments mentioned in this document can fall as well as rise and an investor may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred. Foreign-currency denominated securities and financial instruments are subject to fluctuation in exchange rates that could have a positive or adverse effect on the value, price or income of such securities and financial instruments. Past performance is not indicative of comparable future results, and no representation or warranty is made regarding future performance. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. Accordingly, information may be available to us which is not reflected in this material, and we may have acted upon or used the information prior to or immediately following its publication.

SC is not a legal or tax adviser and is not purporting to provide legal or tax advice. Independent legal and/or tax advice should be sought for any queries relating to the legal or tax implications of any investment. SC and/or a connected company may have a position in any of the securities, instruments or currencies mentioned in this document. SC and/or any member of the SC group of companies or its respective officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this document, may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities or financial instruments referred to in this document and on the website or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments.

SC has in place policies and procedures and physical information walls between its Research Department and differing public and private business functions to help ensure confidential information, including „inside" information is not disclosed unless in line with its policies and procedures and the rules of its regulators. Data, opinions and other information appearing herein may have been obtained from public sources. SC makes no representation or warranty as to the accuracy or completeness of such information obtained from public sources. You are advised to make your own independent judgment (with the advice of your professional advisers as necessary) with respect to any matter contained herein and not rely on this document as the basis for making any trading, hedging or investment decision. SC accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary damages) from use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents or associated services. This material is for the use of intended recipients only and, in any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

Document approved by	Data available as of	Document is released at
Yomi Akinola Head, Research	13:01 GMT 21 April 2023	13:01 GMT 21 April 2023