Stanbic
Investment
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# SIMS ECONOMIC & MARKET REPORT

## 2022 - FULL YEAR

## A DARK 2022: SHOCKWAVES TO PERSIST


# GLOBAL ECONOMY

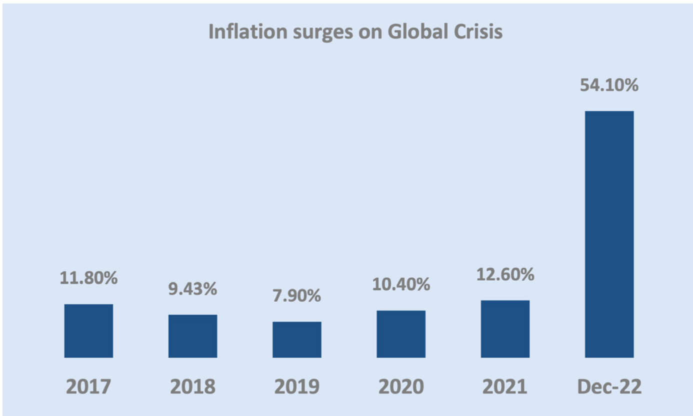
The global economy worsened in 2022, plagued by a lingering Russia-Ukraine conflict, elevated inflation, supply-chain tensions, and a severe energy crisis. A sharp rise in energy and food prices sparked a cost-of-living crisis in several countries waning demand for households and businesses. China's activity stalled as prolonged COVID lockdowns took a toll on the supply chain and global growth. Most central banks undertook rapid policy hikes to rein inflation, further tightening financial conditions and resulting in an economic slowdown.

A sharp rise in the United States dollar fueled sudden portfolio flight from emerging and developing markets which tanked currencies and increased imported inflation globally. Financial markets panicked over the global economic unrest, with fixed-income and equity assets witnessing deep losses.

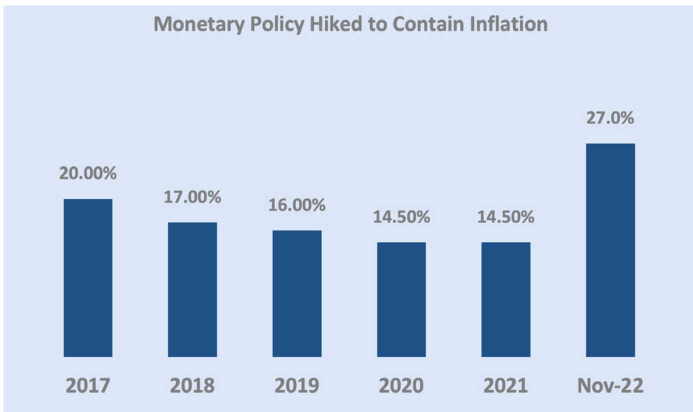
The World Bank predicts another difficult year, scaling back global growth estimate to 1.7%, weakened by the US, Europe, and China's slowdown. Global trade tensions should improve as China continues its push to end Covid-zero policies in the face of a massive infection wave. Elevated inflation could remain a major concern for policymakers in the first half of 2023 while policymakers find a balance between price stability and a fragile economic recovery. Crude oil prices could trade low as global demand concerns hang over the market. We expect the economic hardship to continue as households and businesses grapple with tight financial distress.

# DOMESTIC ECONOMY

Ghana saw a series of shocks, including tighter global financial conditions and a spillover of global inflation amidst heavy indebtedness, which pushed the economy into crisis. Inflation rose sharply to end the year at 54.1%, while the Bank of Ghana tightened the monetary policy rate cumulatively by 12.5% to quell inflation.

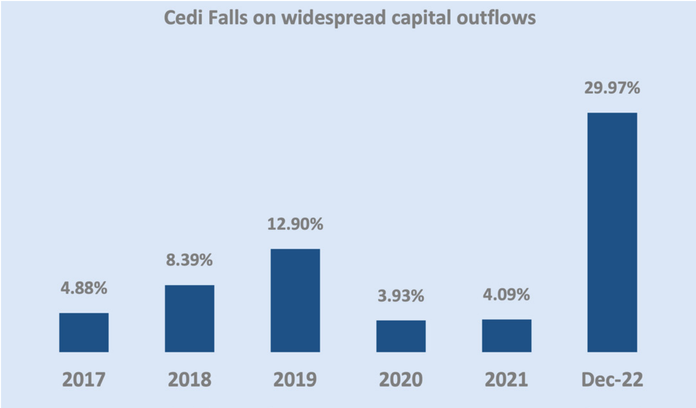



*Source: SIMS, Ghana Statistical Service.*



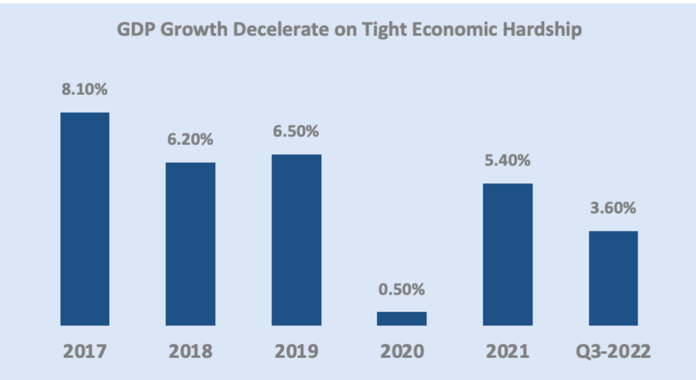

*Source: SIMS, Bank of Ghana*

Ghana lost access to the international market, precipitating several credits downwards, finally to junk status by S&P, Moodys, and Fitch solutions. The weak investor sentiment triggered capital flight draining Ghana's forex reserves to 2.9 months cover. The Cedi fell drastically throughout the year, underscored by persistent demand from market players and speculative activities amid a scarcity of forex inflows. However, news on Ghana's conclusion of a Staff Level Agreement with the IMF temporarily revived confidence in the Cedi, receding end-year depreciation to 29.97% from 54.20% in November.




*Source: SIMS, Bank of Ghana*

Fiscal position deteriorated due to persistent revenue shortfalls and an inflated external debt that triggered the risk of a potential sovereign default. Market confidence fell precipitously as households and businesses struggled with harsh economic conditions. Ghana's debt distress culminated in the launch of a debt exchange program for domestic debtholders while freezing interest payments on foreign debt to create fiscal space to receive a US$3 billion facility from the IMF successfully. A domestic debt exchange programme valued at GHS132.39 billion was launched in December to restore debt and financial sustainability for all domestic bonds, ESLA. Plc, and Daakye Trust Plc. The government has also initiated restructuring engagement with foreign debt holders.




*Source: SIMS, Ministry of Finance, Ghana Statistical Service*

Admittedly, Ghana's fortunes are firmly tied to the happenings in the global market due to reliance on external trade and foreign financing. Ghana's near-term outlook remains uncertain as economic recovery is anchored to the US$3 billion IMF loan pending a successful debt exchange program. However, a successful debt exchange program is uncertain as several pension funds, collective investment schemes, and class action groups demand a favorable agreement. Ghana's policy framework, under IMF leadership, should restore fiscal creditability and revive market confidence in the medium term. The real income of businesses and individuals could erode further due to worsening financial conditions.

| 2023 Key Economic Indicators | FY-2023 Target | Mid-Term Target (2023-2026) |
|---|---|---|
| Real G.D.P. Growth | 2.8% | 4.3% |
| Non-Oil Real G.D.P. Growth | 3.0% | 4.0% |
| End Period Inflation | 18.9% | 8% ± 2 |
| Fiscal Deficit | 7.7% | 6.3% |
| Gross Reserves (Months) | 3.3 | 4.0 |

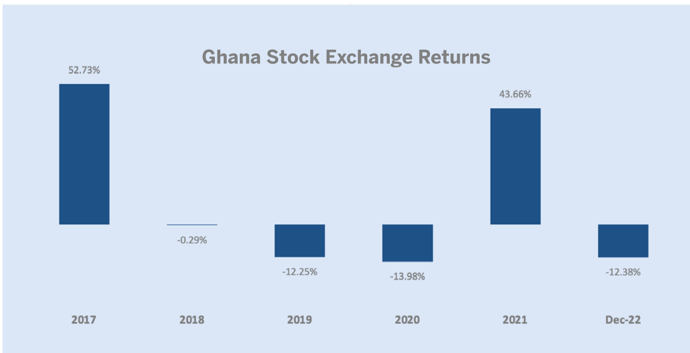
*Source: SIMS, Ministry of Finance*

# DOMESTIC CAPITAL MARKET

## Stock Market

The Ghanaian stock market trended downwards, undermined by negative investor sentiment due to a deteriorated economic environment. The Ghana Stock Exchange Composite Index (GSE CI) declined by 12.38% y/y to 2443.91 points, while the financial stock index (FSI.) lost 4.61% to 2,052.59 points. However, market capitalization inched up by 0.02% y/y to GHS64.51 billion underpinned by the listing of ~377 million shares of Asante Gold Corporation PLC. Market activity was vibrant as volume traded surged by 174.41% y/y to 1.34 billion shares valued at GHS1.64 billion (+207.50%). Trade in MTNGH and NewGold dominated market activity.

Weak corporate earnings and lack of dividend payments could further dampen investor sentiment in the local bourse. In the medium term, we expect Ghana's partnership with the IMF to restore creditability and improve investor confidence in the stock market.

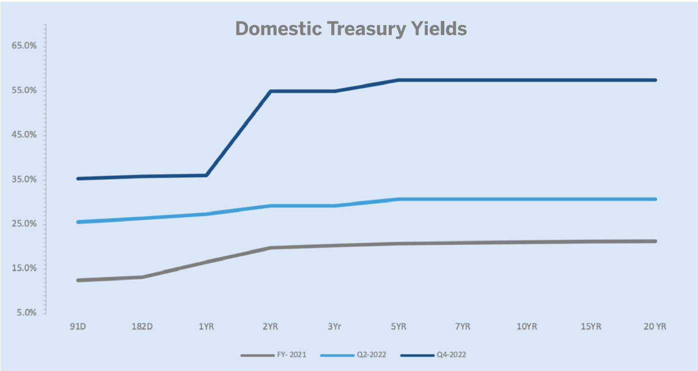



*Source: SIMS, Ghana Stocks Exchange*

## Debt Market

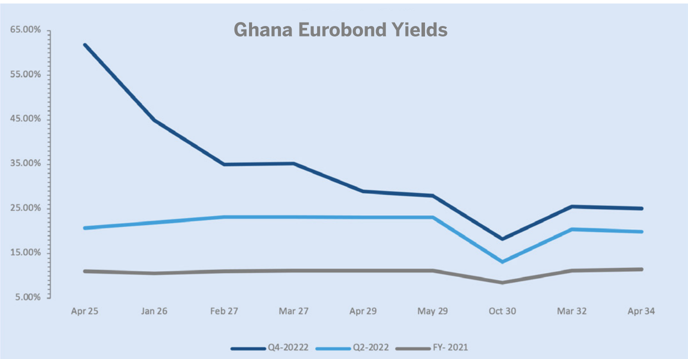
Increased government borrowing and a hawkish monetary stance to curb inflation pushed up short-term yields as investors sought real adjusted returns amid economic uncertainties. The 91-day and 182-day Treasury bill rates ended the year at 35.36% and 35.98%

from year open yields of 12.5% and 13.2% respectively. Additionally, the rate on the 364-day instrument ended at 35.89%. The sharp increase in short-term yields exerted downward pressure on bond prices resulting in bond portfolio losses.




*Source: SIMS, Ghana Fixed Income Market*

Speculation of a possible debt restructuring and a subsequent launch of a domestic debt exchange program waned investor confidence in the last quarter. On the activity front, total trade volumes increased by 10.6% y/y to 230.68 billion, representing 346,803 trades (+52.3% y/y).




*Source: SIMS, GSE, Bloomber*

In December, the government launched a domestic debt exchange program to create fiscal space to receive a US$3 billion credit facility from the IMF. A domestic debt exchange program, valued at GHS132.39 billion covers all domestic bonds, ESLA Plc, and Daakye Trust Plc, with an 80% total participation target rate. The debt exchange program will have 12 newly minted bonds with interest on each bond to start accruing from 2024 at a 5% rate and upwards from 2025 till maturity. Also, principals will be paid in installments at different exchange ratios. See financial terms of new bonds diagram

Government is still in talks with foreign and bilateral lenders for a possible debt restructuring of Ghana's foreign debt stock.

Looking forward, we expect activity on the bond market to decline following a successful settlement of the debt exchange program. In the medium term, we expect yields to trend downwards in line with the quoted rates of the debt exchange program.

## Collective Investment Schemes

Collective Investment schemes witnessed negative net cashflows last year due to increased outflows by investors amid low inflows. A sharp rise in market yields caused most portfolios to record losses as they sold discounted bonds to make liquidity available to clients. An amendment to a mark-to-market valuation methodology of all collective investment schemes caused investor panic resulting in a run on most investment firms.

## Financial Terms of New Bonds

**Interest Rates**

| Year | Jan '24 | Jan '25 | Jan '26 | Jan '27 | Jan '28 | Jan '29 | Jan '30 | Jan '31 | Jan '32 | Jan '33 | Jan '34 | Jan '35 | Jan '36 | Jan '37 | Jan '38 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2027 | 0% | 5% | 9% | 9% | | | | | | | | | | | |
| 2028 | 0% | 5% | 9.15% | 9.15% | 9.15% | | | | | | | | | | |
| 2029 | 0% | 5% | 9.30% | 9.30% | 9.30% | 9.30% | | | | | | | | | |
| 2030 | 0% | 5% | 9.45% | 9.45% | 9.45% | 9.45% | 9.45% | | | | | | | | |
| 2031 | 0% | 5% | 9.60% | 9.60% | 9.60% | 9.60% | 9.60% | 9.60% | | | | | | | |
| 2032 | 0% | 5% | 9.75% | 9.75% | 9.75% | 9.75% | 9.75% | 9.75% | 9.75% | | | | | | |
| 2033 | 0% | 5% | 9.90% | 9.90% | 9.90% | 9.90% | 9.90% | 9.90% | 9.90% | 9.90% | | | | | |
| 2034 | 0% | 5% | 10.05% | 10.05% | 10.05% | 10.05% | 10.05% | 10.05% | 10.05% | 10.05% | 10.05% | | | | |
| 2035 | 0% | 5% | 10.20% | 10.20% | 10.20% | 10.20% | 10.20% | 10.20% | 10.20% | 10.20% | 10.20% | 10.20% | | | |
| 2036 | 0% | 5% | 10.35% | 10.35% | 10.35% | 10.35% | 10.35% | 10.35% | 10.35% | 10.35% | 10.35% | 10.35% | 10.35% | | |
| 2037 | 0% | 5% | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% | |
| 2038 | 0% | 5% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% |

- *The first interest payment will begin on 24th July 2024, and thereafter every six (6) months*
- *Bullet payment of principal at maturity date (24th January for each maturity).*

**Exchange Ratios**

| | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | Cash tender |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Eligible 2023 Bonds | 15% | 15% | 14% | 14% | 14% | 14% | 14% | N/A | N/A | N/A | N/A | N/A | 2% |
| Eligible Post-2023 Bonds | 9% | 9% | 9% | 9% | 8% | 8% | 8% | 8% | 8% | 8% | 8% | 8% | N/A |

*Source: SIMS, Ministry of Finance*

**For more information Contact:**
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*Source: SIMS, Bank of Ghana; Ministry of Finance, Ghana Stocks Exchange, I.M.F. World Economic Outlook, World Bank 2023*