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SIMS ECONOMIC REPORT

HY-2023

Growth Falters: Uncertainties

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GLOBAL ECONOMY

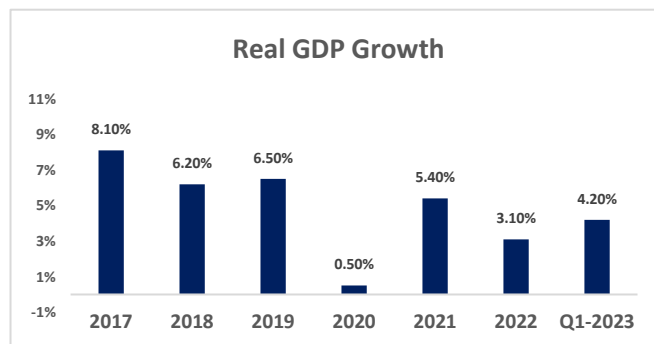
Global growth faltered due to elevated economic risks and recent market tensions. The global economy continued to be plagued by a tight monetary stance and unabating inflation amid protracted spillovers from geopolitical tensions. A sluggish recovery in China and a slowdown in the U.S., Eurozone, and U.K. economies re-echoed global recession fears. Inflation remained persistent, which derailed policymakers' efforts and intensified the cost-of-living crisis by households and businesses. Thus, the tight financing conditions and weak consumer sentiment undermined growth in emerging and developing markets.

Commodities prices have moderated, aided by improved supply chain functions. Crude oil prices traded lower despite successive inventory cuts by OPEC+ due to a global slowdown. Gold prices drifted sideways as concerns over a potential global growth decline increased.

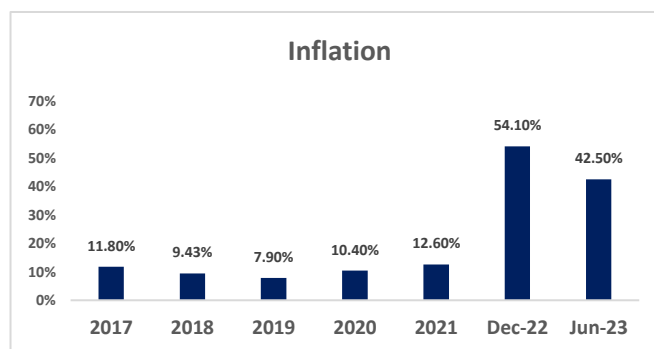
The World Bank has revised the 2023 global G.D.P. to 2.1% from 1.7% predicted in January due to a sustained vibrant U.S. labour market in the 1HY-2023. However, global growth is expected to slow significantly in 2HY-2023 and continue into 2024, marred by widespread bank turmoil and tighter monetary policy. Global headline inflation should moderate to 7% for 2023 due to lower commodity prices. However, an unfavorable mix of high core inflation, restrictive credit policies, and a slowdown in global demand could intensify the financial plight of individuals and businesses.

DOMESTIC ECONOMY

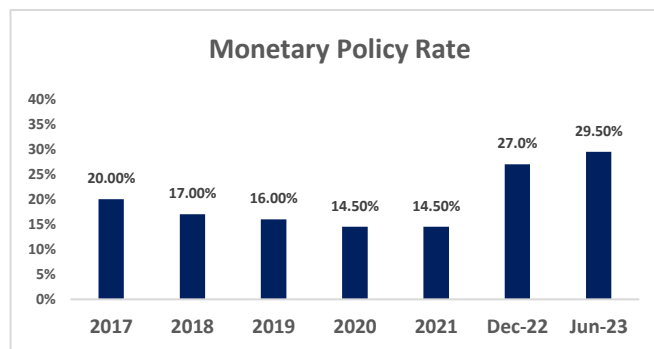
The Ghanaian economy picked up as Ghana recorded a Q1-2023 GDP of 4.2%, higher than 3% a year ago, driven by growth in the service (+10.1%) and agriculture (+4.1%) sectors.



However, the high cost of living persisted as headline inflation sprinted to 42.5% due to higher food prices which offset a decline in non-food inflation.

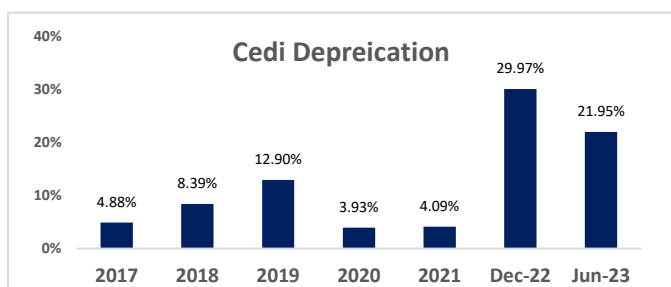


The monetary policy rate remained high at 29.5% to rein in inflation.



Ghana finally received approval from the International Monetary Fund (IMF) with an immediate injection of \$600 million in May for budget execution and balance of payment support. The positive sentiment supported the cedi stability with a depreciation of 21.95% as of June 2023 compared to 22.13% in March 2023.

STOCK MARKET



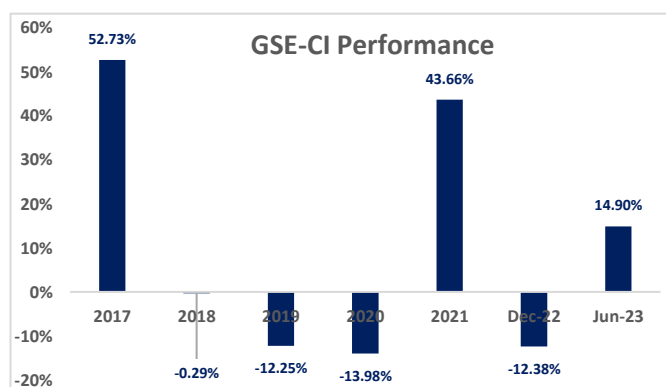
Source: SIMS, Bank of Ghana

In the second week of July, the government resumed its domestic debt restructuring program by inviting investors to exchange US\$809 million of foreign currency-denominated notes for two new securities maturing in 2027 and 2028 that pay coupons of 2.75% and 3.25%, respectively. Additionally, it has proposed restructuring GHS7.9 billion cocoa bills by offering investors 13% on five new bonds maturing in 2024 through 2028. The government continues to advance discussions with external investors and local pension funds to restructure debt holdings in a separate proposal. Completing all outstanding debt restructuring is curial to unlocking additional external funding from foreign donors and releasing new tranches from the IMF.

Going forward, inflation may decline marginally, underscored by subdued fuel prices, a tight monetary stance, and lower food prices as harvest season begins in Q3-2023. The cedi should remain stable, anchored on improved forex liquidity and successful restructuring of external debts.

2023 Key Economic Indicators	FY-2023 Target	Medium-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

The stock market posted a positive return of 14.90% to an index level of 2,808.03 in 1HY- 2023 as investors steered toward stocks with strong financial performance amid a lull fixed-income market. The financial stock index, however, lost 17.57% to 1,691.91 points due to the impact of the Domestic Debt Exchange Programme on bank profitability.



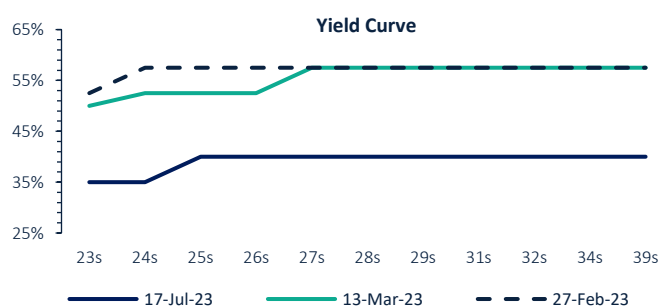
Market capitalization increased by 8.89% y/y based on price gains in MTN Ghana, Total Energies, and Benso Oil Palm Plantation. Market activity was, however, weak; volume traded declined by 79.2% y/y to ~226.9 million, valued at ~GHS1.1 billion (-68.8% y/y).

We expect non-financial stocks, including MTN, GOIL, TOTAL, and BOPP, to drive stock performance. Financial stocks should continue to struggle, undermined by low profitability from implementing the second run of government debt restructuring.

DEBT MARKET

Market activity was weak due to bleak investor sentiment driven by a liquidity squeeze and economic uncertainty. Investor interest was geared toward short-term securities to reduce risk exposure amid ongoing debt restructurings. Yields remained elevated as the government increased the uptake of Treasury bills to support fiscal operations. The 91-day and 182-day Treasury bill rates ended the half-year at 23.95% and 25.85% compared to 19.97% and 22.95% in the prior year. Additionally, the rate on the 364-day instrument ended at 29.25%, higher than the 24.46% recorded a year ago.

Trade activity on the fixed income should remain muted due to ongoing domestic debt restructuring despite a stable cedi.



CONCLUSION

The government's strict adherence to IMF conditions will be crucial in enhancing fiscal consolidation efforts and restoring investor confidence in the economy.

For more information Contact:
SIMSResearch@standardbank.onmicrosoft.com

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