



GHANA

2022 Economic Outlook

Amidst the globally prescribed rhetoric of the times - being nimble and efficient, Ghana is faced with tough fiscal consolidation decisions and economic crisis management lessons.

04 April 2022

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Overview

In the wake of the Coronavirus pandemic, the world continues to grapple with globally impactful issues - ranging from supply chain disruptions, to economic instability and regional conflicts. 2022 poses formidable challenges for economies. More than ever, innovative application of existing policies and in some instances completely new principles, will be required to navigate such peculiar times.

For Ghana, the start of President Akufo Addo's second term in 2021, was geared at steering the nation towards some economic stabilisation, amidst second, third and eventual fourth waves of the novel Coronavirus pandemic.

Various support measures for households and businesses continued from 2020, while targeted initiatives under the Ghana CARES (Obaatanpa) Programme and policy actions to encourage access to credit for private sector enterprises, were pursued.

Performance of the Government's 2021 and Medium-Term Overall Macroeconomic Targets were as follows:

- Overall Real GDP growth to average 5.0 percent – **Circa 4% achieved**
- Non-Oil Real GDP to grow at an average of 4.9 percent – **Unmet**
- Inflation to be within the target band of 8 ± 2 percent - **Largely achieved till Q4 2021**
- Overall fiscal balance and primary balance to return to the Fiscal Responsibility Act threshold of fiscal deficit of 5 percent of GDP and positive primary balance by 2024 - **Ongoing**
- Gross International Reserves to cover at least 4.0 months of imports - **Achieved**

Ghana has introduced a new Medium-Term Fiscal Framework for 2022 – 2025.

Targets of the framework include:

- Overall Real GDP to grow at an average rate of 5.6 percent;
- Non-Oil Real GDP to grow at an average rate of 5.9 percent;
- End-December Inflation to be within the target band of 8 ± 2 percent;
- Primary Balance to return to the Fiscal Responsibility Act threshold target by 2022 – i.e. a positive primary balance
- Overall fiscal balance to return to the Fiscal Responsibility Act threshold target by 2024—i.e. fiscal deficit of not more than 5 percent of GDP; and
- Gross International Reserves to cover at least 4 months of imports.

Specific to 2022, are the following targets:

- Overall Real GDP growth of 5.8 percent;
- Non-Oil Real GDP growth of 5.9 percent;
- End-December inflation rate of 8 percent;
- Fiscal deficit of 7.4 percent of GDP;
- Primary surplus of 0.1 percent of GDP; and
- Gross International Reserves to cover not less than 4 months of imports.

Amidst more-than-anticipated difficulties of 2021 both globally and locally, 2022 appears to present a new set of trials. Nonetheless, Government's drive to strengthen the Country's economic fundamentals remains unwavering. Achievability of macroeconomic targets of the medium-term framework highlighted above will however require strong fiscal discipline and tough monetary policy actions.

The World In 2021

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“We can emerge from this crises a better world, if we act quickly and jointly.”

Klaus Schwab
Founder & Executive Chairman,
WORLD ECONOMIC FORUM

The World in 2021 – Global Trends

2021 was pegged as a year of positioning for recovery for most economies. In view of current realities, vaccine roll-outs and streamlining of economic policies to stimulate growth, were guiding mandates.

Broadly, global trends seen in 2021 bordered on:

- Uneven pace of recovery and overall growth of economies,
- Coronavirus variants, the fight for efficient vaccine roll-outs(4.4 billion fully vaccinated individuals at year-end), equitable distribution, and Booster doses
- Exchange rate volatilities
- Ending quantitative easing through phased Monetary Policy actions
- Supply chain challenges and heightened inflationary pressures
- Improved demand for crude oil as business activity splutters back to life
- Continued OPEC quota regime impacting global crude oil prices.
- Higher debt vulnerabilities particularly in emerging markets, with a myriad of restructurings ensuing
- Cryptocurrency and attendant volatilities
- Cautious tourism activity and business travel
- Climate preservation conversations
- An unprecedented spike in venture capital and unicorn creation activity, particularly in financial technology and artificial intelligence segments

Fragility of global economies continue to be tested amidst tepid and unsteady recovery



Sources: The World Bank, Sarpong Capital Research

Key metrics at the end of 2021 were:

| | |
|---|------------------------|
| Global GDP | \$87 trillion |
| GDP Growth Rate (IMF expectations) | 5.9% |
| Oil Prices (End Period) | \$74 per barrel |
| Global Debt | ~\$235 trillion |

The World in 2021 – Global Trends

Looking at specific markets and key global trade regions, we note the following trends.

China

- Slower than expected economic growth with GDP rising by 8.1% year on year particularly driven by Q1 and Q2 performance. Depressed Q3 and Q4 performance sub 5% undermined China's status as a global superpower
- Consumer inflation pressures, though comparably, low doubled y-o-y from 0.2% recorded at the end of 2020 to 1.5% at the end of 2021 with consequences reverberating across the world given China's manufacturing profile. Further passthrough worries about near-term inflationary pressures persist with Producer Prices of the industrial sector growing at 10.3% y-o-y in December 2021
- Continued trade tensions with the US and other western nations impacting output.

Euro-Area

- Widespread health crisis
- Pockets of internal political strains for a number of key nations
- Continued low-interest rate environment and other pandemic measures upheld some stability in economic activity. However, hard Brexit negotiations impacted economic growth for the United Kingdom somewhat
- Inflationary pressures persisted like much of the world (United Kingdom: 2.5% France: 1.3%, Germany: 1.5%, Spain: 1.4%, Russia: 4.7%)

The United States of America

- The Biden administration in 2021, largely focussed on its vaccination drive, a range of COVID relief initiatives, improving infrastructure, and job creation from a legislative standpoint
- Post-COVID Gross Domestic Product (GDP) growth of 3.8% y-o-y recorded
- Job creation drive undermined by COVID variants and economic setbacks
- Elevated inflationary pressures reaching a high of 7% in December 2021
- Conversations around the end of quantitative easing peaked, though actualisation was constrained by slower than anticipated economic growth and trade tensions

Developing markets

- Currency depreciation relative to the USD has been a key challenge, particularly with import-dependent nations
- Global inflationary pressures from oil prices to supply of consumer goods, further exacerbated already high inflation rates (Ghana: 11%, Nigeria: 16%, Brazil: 11%, Cuba: 32.3%)
- Rising public debt remains a core concern as government revenues were stagnant compared to soaring expenditure
- Stalled vaccine roll-out on account of supply of doses, national distribution, and vaccine apathy

The World in 2021 – Debt & Equity Capital Markets

Fixed Income

With inflationary pressures battering the global economy, fixed income activity in 2021 was particularly subdued. This is alongside the low-interest rate environment adopted to ease pandemic pressures which saw investors borrowing in low yield markets to invest in high yield markets. The yield-seeking race which picked up pace in 2020 driving investors to emerging markets, quickly became a distress/credit risk minimisation race.

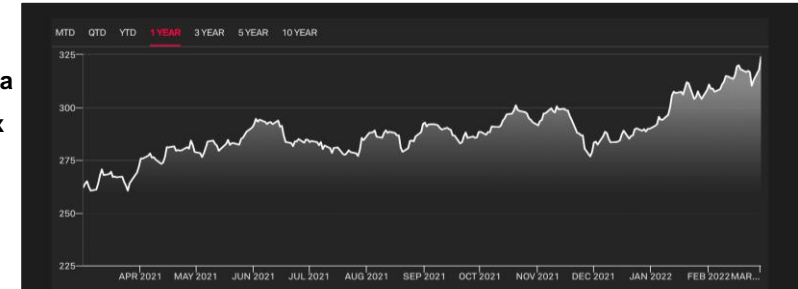
Conversely, short term securities were favoured as the market traped between underperforming assets alongside inflationary pressures and low rates. With the global supply chain challenge alongside higher energy prices, news of a phased end to quantitative easing was welcome by traders spurring a flurry of volatility for longer-dated securities, offering wider spreads.

A rise in inflation trading, compensating for the downsides of other fixed income trading products, has been noted across established markets, with emerging markets mulling inflation-linked products. Wider returns are nonetheless still in favour of emerging markets with a return of investors seen early in 2022. Economic fundamentals also play a key role here, tipping baskets in favour of newly issued or secondary market traded sovereign, supranational and select industry securities.

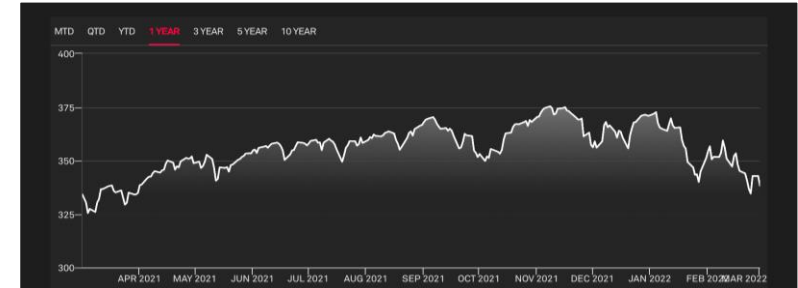
More recent global events such as Russia-Ukraine tensions, ensuing sanctions and the reverberating effect on the global economy may influence a less aggressive policy stance contrary to expected bullish rate hikes.

Emerging markets lead yield race, despite higher credit risks

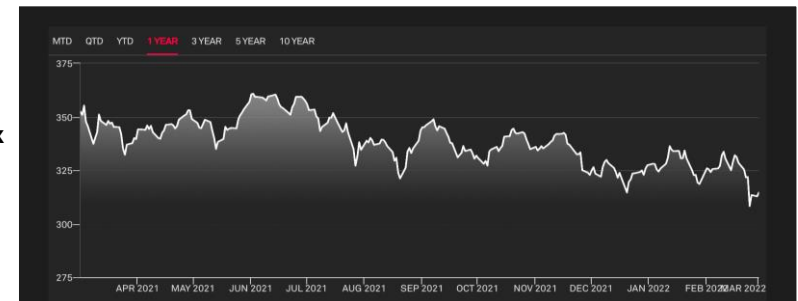
S&P Emerging Middle East & Africa Broad Market Index



S&P Global Broad Market Index



S&P Emerging Broad Market Index



Source: S&P Global

The World in 2021 – Debt & Equity Capital Markets

Equities

The global equities market took a big hit from the pandemic with economic fundamentals of stocks being more susceptible to shocks, in addition to the suspension of dividend payments in some markets. Select segments such as healthcare, pharmaceutical, bioscience and technology stocks however flourished on account of the times, as the majority of investors sought high-yield debt instruments.

In 2021, investor sentiments improved, leveraging on recovery projections reflected in rising prices. With the US stock market accounting for over half of world stocks, stock exchanges such as the NYSE and the NASDAQ have seen some volatile market conditions since the pandemic. Notwithstanding, positive notes were recorded in the form of technology IPOs, exchange-traded fund classes to compensate for a subdued equity market/serve as a liquidity tool, venture capital funding, and ESG stocks to name a few.

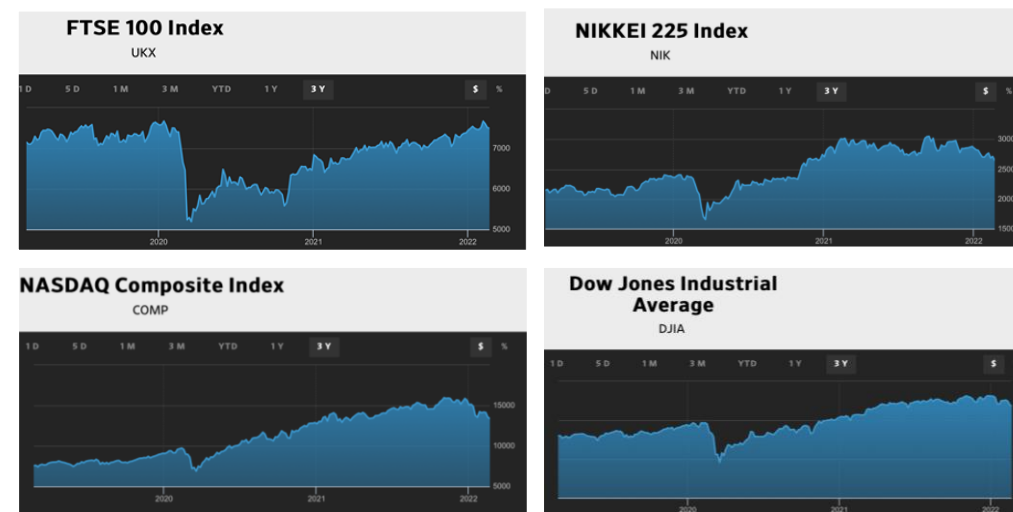
Around the world, lower-priced stocks appear to have led trading activity with a surge in retail trading. Continued market rallies were the result of encouraging economic fundamentals and containment of the pandemic at manageable levels through vaccination. Furthermore, depressed pricing has encouraged the uptake of some pre-pandemic strong dividend-paying stocks.

Regionally, China stocks remained depressed in 2021 on account of challenges in key economic segments such as real estate and manufacturing but have begun to recover, albeit tepid. Recent Russia – Ukraine tensions will likely impact European Oil & Gas stocks, with a global sell-off of stocks of Russian & Russia exposed entities.

The European equity market fared well in 2021, despite inflation headwinds and supply chain constraints, and continues to thrive steadily with bright spots for technology, pharmaceuticals, fast-moving consumer goods (FMCGs), and food and beverage industries.

The lack of depth of emerging market stocks coupled with subdued profitability has constrained the performance of equities. Financial services, as well as information, communication and technology stocks, have largely been the key drivers of any movements. Despite concerning credit risk profiles, sub-Saharan Africa in particular has in recent times been noted for strong technology start-ups. Raising over \$4 billion in 2021, these start-ups have largely been financial technology-gear.

Equity markets record steady improvements, albeit in select regions and sectors



Source: WSJ Markets



Global Macroeconomic Themes For 2022

| 2022 Economic Outlook

“Globalization has produced a new level of interdependence among us. The economic and multinational supply chains do not abide by political boundaries.”

Eduardo Paes
Mayor, RIO DE JANEIRO, BRAZIL

Global Macroeconomic Themes for 2022 – Overall

Overall, expectations for 2022 remain cautiously optimistic as nations race to record some sustained normalcy. Better science, proven through rapid detection and response to COVID variants, signal encouraging notes. In addition, tough lessons of the last 24 months mean most Governments are now better equipped and prepared to deal with emerging issues.

Nonetheless, potential challenges lie ahead for the near term. Initial strategies are being adjusted globally to reflect the ripple effects of a Russia-led invasion of Ukraine. Some of these challenges include the reverberating effect of sanctions impacting trade activity and supply chains, risks of Russia restricting gas flow, and higher energy/commodity prices. All of these are set against an existing backdrop of COVID resurge uncertainties.

Thus, key global themes expected for 2022 include:

Political Environment

- Pockets of tensions in parts of the world particularly Europe and Latin America as democracy is tested. Interventions expected from the USA and European Union
- Continued trade face-off between China and the United States of America

Global Economy

- Tepid growth in GDP as governments work to drive growth while stemming the suppressing effects of inflationary pressures. Monetary policies will be fluid and closely monitored by all.
- Commodity prices to continue to be susceptible to changing trade policies.

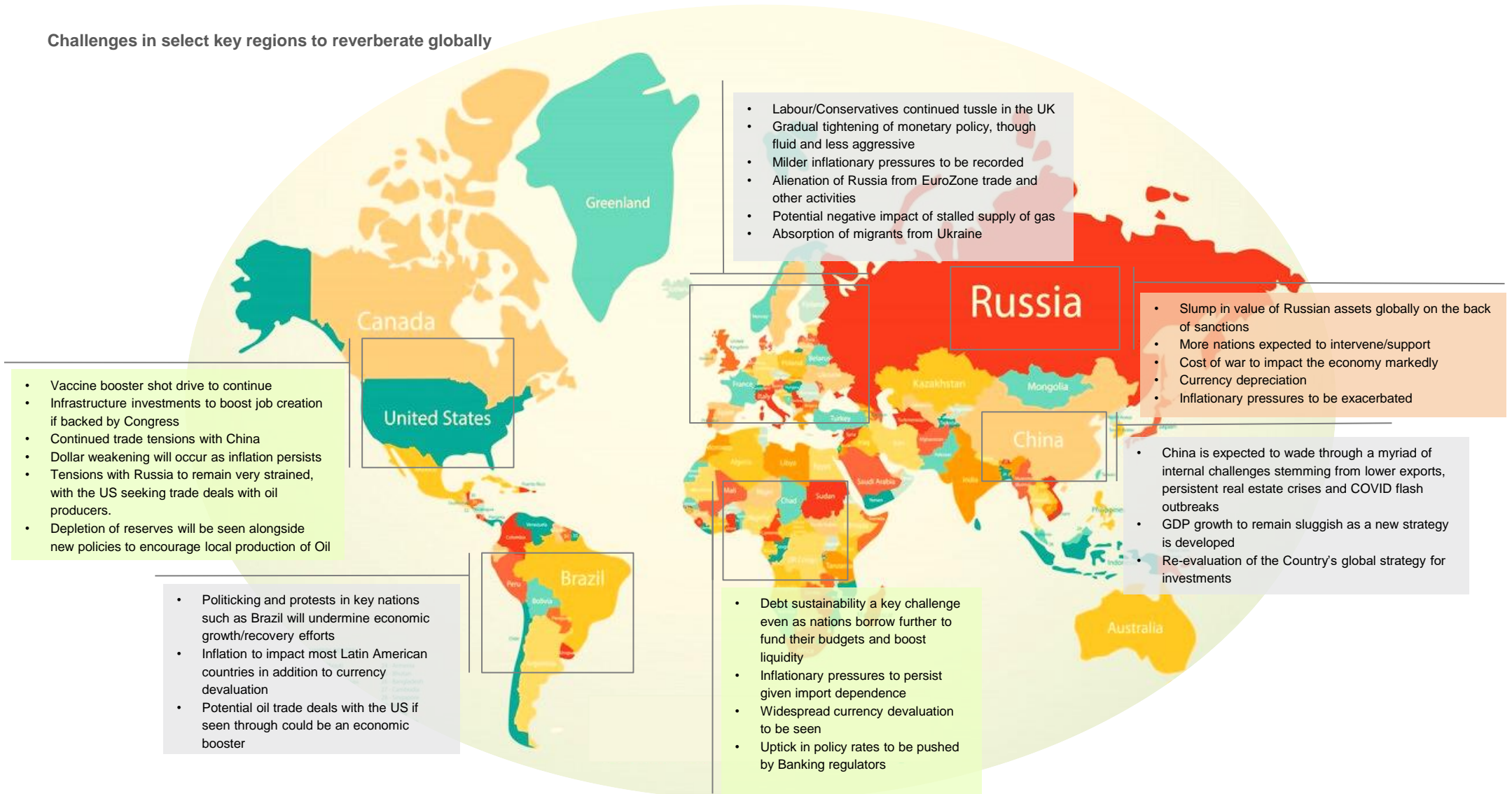
- Initially planned hard end to quantitative easing may be delayed as Central Banks adopt a less aggressive stance in response to widespread consequences of the Russia-led Ukraine invasion. Interest rates are expected to be raised, albeit any hawkish decisions will be deployed measuredly in H2 2022.
- Continued OPEC quota regime alongside sanctions on Russia, will lift oil prices. Oil trade deals with previously restricted nations such as Iran and Venezuela may temper spikes. However, countries may need to tap into reserves in addition.
- Foreign exchange volatilities are likely to persist, driven by a weaker dollar and inflation, particularly for emerging market currencies.
- Inflationary pressures to linger for fuel, industrial goods and consumer goods as supply chain challenges persist. Concerns about price hikes for nitrogen-based fertilizer for agricultural produce have also emerged on account of the Russia-Ukraine conflict. Elevations in wheat prices have also been noted, given that the two nations account for just under a third of global wheat exports.
- Bright spots remain for technology, financial services (particularly fintech), healthcare, e-commerce, telecommunications and infrastructure segments.

Accordingly, Sarpong Capital's forecasts for key 2022 global metrics are as follows

| | |
|-----------------------------|--------------------------|
| Global GDP | \$92 trillion |
| GDP Growth Rate: | 4.3% |
| Oil Prices (Average) | ~\$100 per barrel |
| Global Debt | ~\$275 trillion |

Global Macroeconomic Themes for 2022 – Key Markets

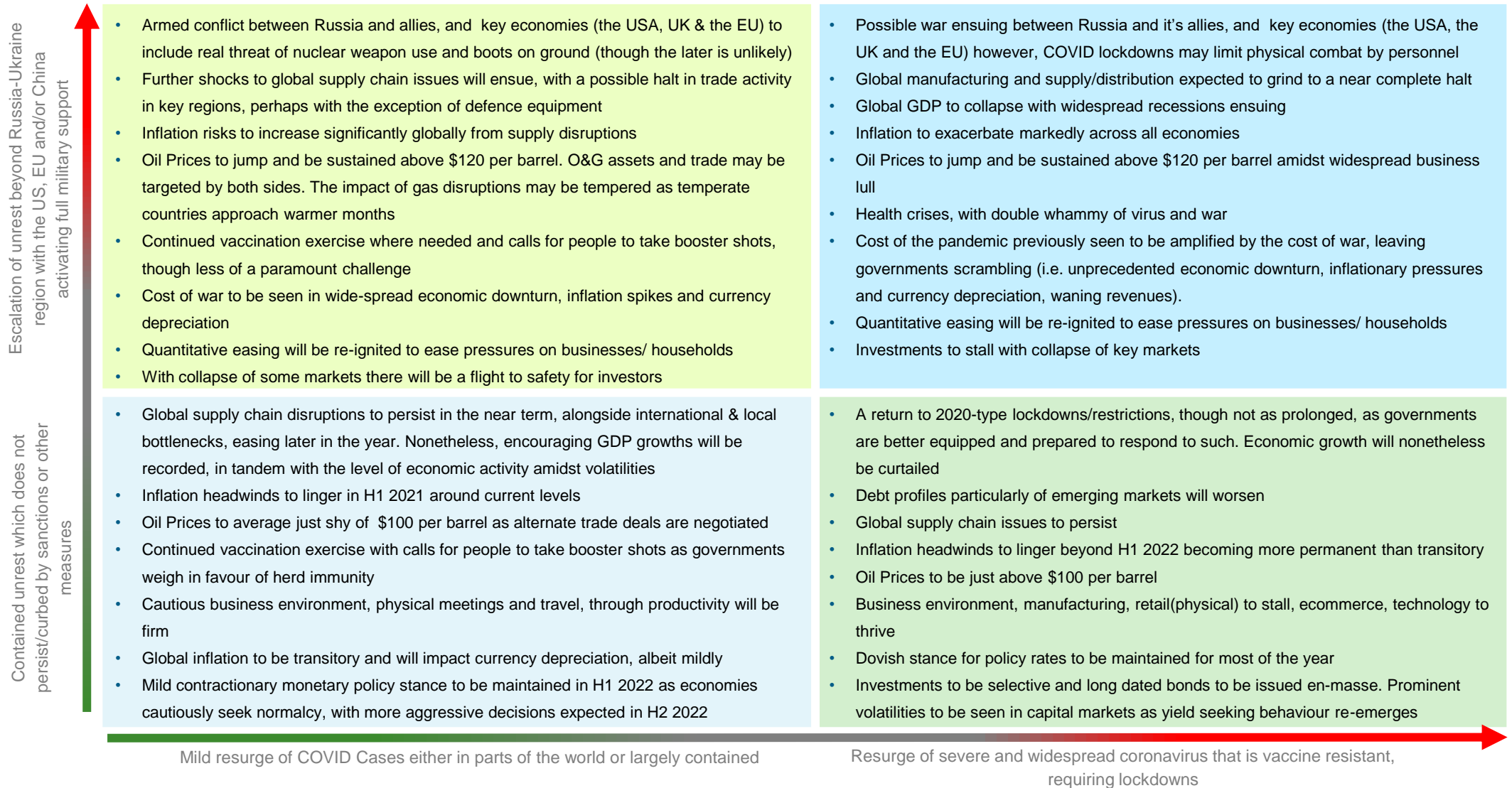
Challenges in select key regions to reverberate globally



Source: Sarpong Capital Research, Stock World Map Image

Global Outlook Risks

2022 global outlook risks are hinged on two key issues - **The coronavirus pandemic** and **The state/scale of global unrest**. Implications include:



Ghana

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“2022 will be the real test of the Ghanaian economy’s resilience. Barring aggressive revenue growth, the Government will need to cut expenditure to balance the books.”

Kofi Koduah-Sarpong
Founder & CEO, SARPONG CAPITAL

Ghana – Current Political Risk Profile

Political Risk

The Administration of President Akufo-Addo assumed office for both first and second terms with the spirited aim of addressing Ghana's most pressing challenges. The focus was Education, Incentives/Investments for Economic growth, Job Creation, Improved Energy/Power, Infrastructure development amongst other growth spurring initiatives. With the currently difficult fiscal position, Government's goals have been negatively impacted.

In the cautiously-labeled 'aftermath' of the Coronavirus pandemic, Government has been faced with further challenges on two fronts.

These include:

- Persistent tensions particularly between the major parties NPP and NDC, with the halfway split between the two parties in parliament, alongside one independent party minister, making decision-making on, and passage into law of key policies tougher. For instance, the recently resolved impasse with passing the Electronic Transfer Levy Act 2022 (E-Levy) geared at revenue generation.
- Stalled fiscal consolidation and macroeconomic woes impacting ability to concentrate efforts on the initial mandate, or gain firm investor confidence.

Concerted efforts are however being made to resolve challenges faced. To resolve Parliament impasses for instance, the Supreme Court in March 2022 ruled that a Deputy Speaker's vote is valid for a decision-making quorum, even when presiding

over Parliament in the absence of the Speaker of Parliament - reversing the previously adopted stance of invalidity.

This landmark ruling aided resolution of the Electronic-Levy impasse and will stand to aid easier passage of bills by the NPP-led administration.

Further highlights include

- A relatively stable governance environment and good political will to steer the economy
- Support for businesses (particularly MSMEs) and households in terms of tax, education, healthcare, and utility considerations;
- Commitment to food security, regional production hubs and infrastructure development

In spite of political challenges faced, Ghana has anchored its position on the continent, playing front-line uniting roles on development initiatives (For instance the Africa Continental Free Trade Agreement Secretariat located in Ghana, strong representation at the African Development Bank, Chairmanship of ECOWAS, etc) as well as courting global economies for investments.

The race however is on to record marked strides given that the next general elections are in just over 30 months. Politicking will begin in earnest at the latest, early in 2024. As overall political risk is currently low, the key is Government's ability to improve Ghana's socio-economic profile, on both the domestic and foreign stage.

Ghana – Current Credit Risk Profile

Credit Risk

Ghana's credit risk profile has taken a hit in recent times. Current credit ratings and outlooks are reflective of the following assessed fundamentals:

- Government Finances characterised by weak revenue, persistent deficits, liquidity challenges, and a costly debt profile with a focus on short-dated issuances.
- Fair GDP growth with select sectors driving marked increases in output.
- Elevated headline inflation, high sensitivity to FX rates and a depreciating currency.
- Low political risk encouraging positive views on political will for desired changes

Moody's
Caa1
Stable

S&P
B-
Stable

Fitch
B-
Negative

An elevated country risk profile will dovetail into a higher risk pricing for real sector operators, particularly for foreign currency financing. The Country Risk premium for Ghana stands at about 6.4%.

Recent monetary policy decisions, particularly the prime rate hike to 17% in March 2022 may improve investor returns but will not suffice to enhance the Country's current credit risk profile.

The Government also in March 2022 released action points to reduce perceived credit risks by addressing difficulties with/arising from currency depreciation, rising inflation, rising fuel pricing, sluggish revenue growth and soaring government expenditure which has accentuated the Central Government's deficit and debt profiles.

Whilst further directives are expected from the Government over the coming weeks, including a reviewed 2022 Fiscal Framework targeting a budget deficit of 7.4% of GDP, we highlight key action points promised under four core categories, as follows:

Revenue Mobilisation

- Drive implementation and collection of
 - Revised property tax rates
 - EVAT/E-Commerce/E-Gaming taxes
- Enforce No Duty-No Exit at key Tema port
- Deploy a simplified tax filing application
- Deploy a digital system to monitor natural resource activity in partnership with the private sector
- Prioritise revenue assurance, compliance and passage/implementation of E-Levy & other initiatives

Ghana – Current Credit Risk Profile (Contd.)

Expenditure

To check expenditure levels, sweeping changes promised include

- A 20% expenditure cut through moratoriums and quarterly expenditure ceilings and for MDAs – cost lines to be impacted include fuel coupons, imported vehicles, foreign travel, establishment of public sector institutions and conferences.
- Contribution of 30% of salaries of Ministers and Heads of State-Owned Enterprises to a consolidated fund.
- Strengthened procurement control and payroll/human resource management in addition to the elimination of ghost workers.
- Prioritising existing projects over new ones.
- Weaning tertiary institutions off government payrolls and provide a fixed block grant.

Financing and Currency

- The Government is to raise \$2 billion in immediate external financing for liability management.
- An FX retention policy is expected to be instituted for the extractive sector

Overall Business Activity

- A total reduction of 15 pesewas per litre to be instituted, to reduce pump prices of Petrol by 1.6% and Diesel by 1.4% (BOST margin – 2 pesewas, UPPF - 9 pesewas, FMM - 1 pesewa and PDM – 3pesewas).
- Further efforts will be made to drive 1District 1Factory(1D1F) and YouStart (Entrepreneurship under Ghana Cares programme) initiatives geared at promoting Made in Ghana goods, particularly in view of the AfCFTA.
- New COVID travel and event protocols announced, geared at opening up the economy for activity with minimal restrictions. Mask mandates and event capacity restrictions have been lifted in addition to all travel restrictions for vaccinated persons.

Our views

The Country's credit risk profile is expected to remain elevated in the near term until the initiatives committed to, start to bear fruits. It is expected that expenditure cuts may yield at least GHS 5 billion off current budget deficit pressures.

With uncertainties around foreign currency financing amidst waning investor confidence, coupled with sovereign investors such as China reassessing their Africa lending strategy, Ghana would have to be prudent with foreign currency assets even as it continues to drive domestic revenue to ease the level of domestic borrowing.

Ghana – Government Finances

Revenue & Expenditure

The Government of Ghana projected a revenue outturn of GHS 70.3 billion for the year gone past – 2021, representative of a 27.6% y-o-y improvement. We conservatively expect this anticipated y-o-y growth rate to rather settle around 20.1% when official figures are released.

Tax revenue continues to serve as the main internally generated funding source for central government activities, particularly taxes on income and domestic goods/services, hovering between 78% and 82% of total revenue in recent years.

In the same vein, central government expenditure, estimated to have totalled GHS 107.4 billion for 2021, continues to grow faster than revenue. In view of stark realities where employee compensation and finance costs collectively account for over 60.7% of expenditure and over 90% of revenues, improved revenue mobilisation has been the watch phrase of the Country's debt profile/fiscal consolidation conversation.

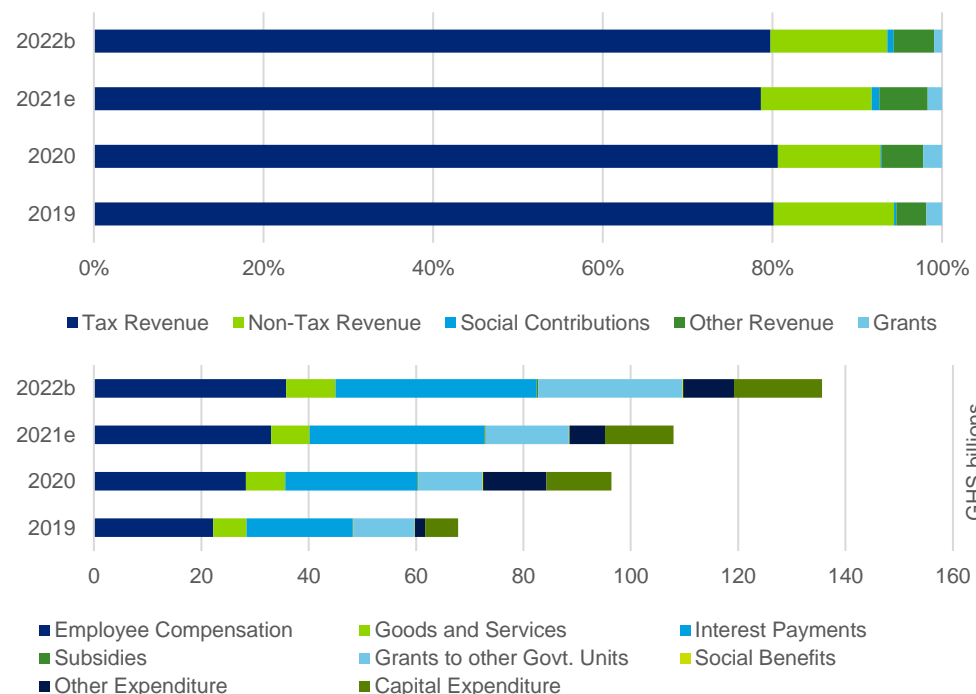
In addition to existing initiatives for expanding the tax net, other 2022 budget measures are being pursued. Notably,

- A recently passed Electronic Transaction Levy of 1.5% of the value of all digital transactions above GHS 100, awaiting the President's imminent assent with a revised proposed effective date of 01 May 2022 from 01 February 2022.
- Import Benchmark Review
- A proposed review of fees and charges for government services is expected to increase fees and charges by a minimum of 15% in 2022

- A proposed review of the VAT Flat Rate System where the VFRS will apply only to retailers with a turnover between GHS 200,000 and GHS 500,000 otherwise the Standard rate applies

Measures proposed, may still be met with formidable parliamentary and stakeholder opposition, even as we enter Q2 2022. Action points to drive revenue outlined in the budget, alongside more recent E-Levy tax and proposed expenditure cuts, are cumulatively expected to yield about GHS 9.5 billion.

Revenue at current levels not sufficient to boost revenue or fulfill significant Govt. costs



Source: Ministry of Finance, Bank of Ghana and Sarpong Capital Research

Ghana – Government Finances

Deficit

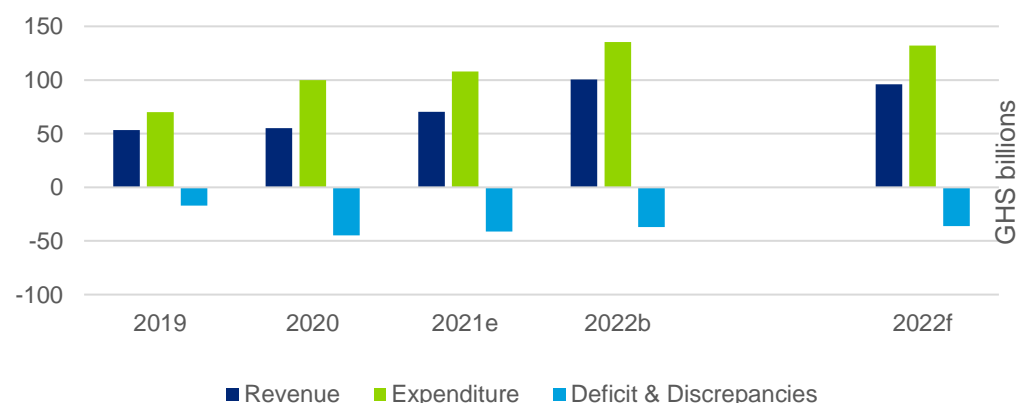
Closing 2021 with a budget deficit above GHS 40 billion, 2022 deficit was pegged at GHS 37 billion in the annual budget statement. A revenue boost expected from recent passage of the E-Levy bill, is expected to check the even higher deficit position of GHS 44.0 billion for 2022 anticipated by our analysts at the start of the year.

Furthermore, announced expenditure cuts, which will be tempered in reality, are nonetheless expected to restrain further ballooning of deficit levels.

Thus, we believe the 2022 deficit will hover around GHS 36.2 billion.

As in past years, gaps will be funded by local and foreign currency borrowings, project and programme-tied loans as well as possible International Monetary Fund (IMF) allocations.

Deficit levels to be curbed by revenue mobilization efforts alongside proposed expenditure cuts



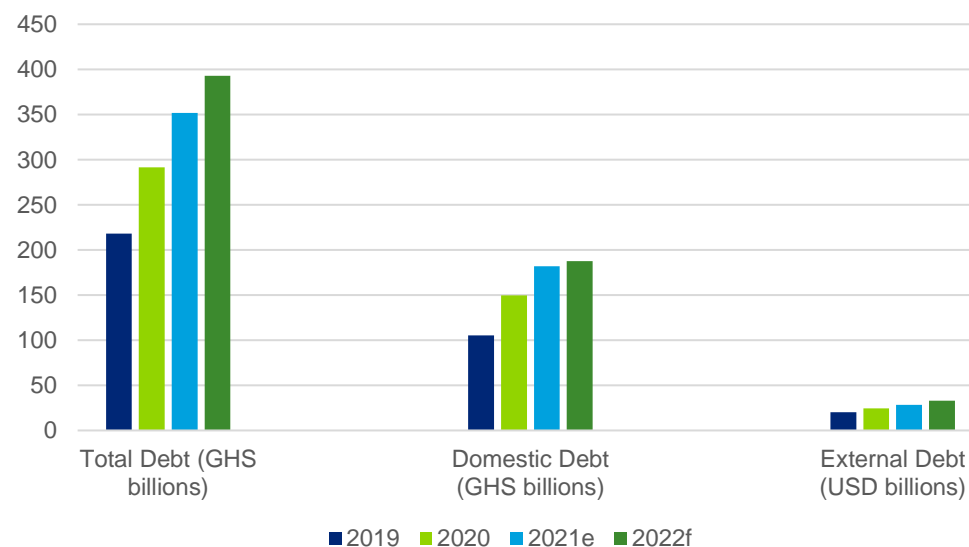
Sources: Ministry of Finance, Bank of Ghana and Sarpong Capital Research

Debt Profile

With current debt stock growing at a compounded annual growth rate of 27.8% over the last five years, there are legitimate concerns around sustainability. Ghana's debt profile particularly worsened on account of pandemic control and relief efforts.

Specifically, debt was estimated at 80.1% of GDP at the end of 2021, compared to 62.4% in 2019 pre-pandemic. Current total debt stands at GHS 351.8 billion, 51.6% of which is domestic debt and the remainder of 48.4% a precarious external debt position in view of the Country's current foreign currency earning capacity.

Debt profile is akin to a hard overdraft both in the domestic and external capital markets, with credit risk implications



Sources: Ministry of Finance, Bank of Ghana and Sarpong Capital Research

Ghana – Government Finances

Debt Profile (Contd)

On the domestic debt front, Government is expected to tap the market for an estimated GHS 115 billion in 2022 (largely from the banking system) through a variety of instruments. This level and frequency of borrowing continue to result in a crowding-out effect, negatively impacting bank lending to the real sector. Private sector credits shrunk 1.3% in 2021.

Government's domestic issuance calendar indicated GHS 24.5 billion in borrowings for Q1 2022, 84.5% of which is to roll over upcoming maturities.

On the foreign debt side, Ghana will issue Eurobonds, Green Bonds and utilise other term loan facilities of up to US\$ 4.9 billion. An already announced US\$2 billion loan for liability management is expected to be concluded very early in Q2 2022. It is expected that recently announced measures will improve investor confidence in Government's commitment to improving Ghana's fiscal and overall macroeconomic affairs.

While investor sentiments are improving from the Q4 2021 dip, constrained ability to favourably borrow in foreign currency may still be noted. Two key questions persist:

- How much room is there (if any) for domestic borrowing before it significantly impacts the country's economic profile?
- How much room is there (if any) for foreign currency borrowings, assessing Ghana's foreign currency earnings vis a vis debt service costs?

Ghana – External Sector

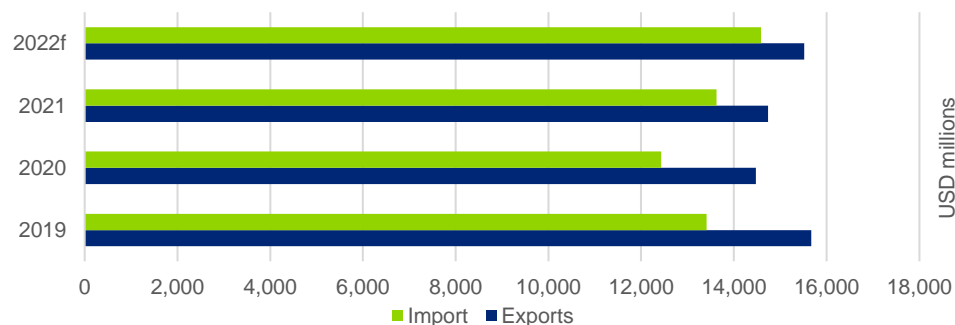
Trade

Ghana's external position has remained fairly stable, buoyed by improved export proceeds from cocoa and oil, alongside foreign currency debt from an international capital raising exercise in H1 2021. Exports totalled \$14.7 billion in 2021, only marginally higher than the prior year 2020.

Gold exports accounted for 34.5% of total exports in 2021 while oil and cocoa exports accounted for 26.8% and 19.3% respectively. As the world moved away from safety in gold, a decline in price was noted for the commodity. Overall exports for Ghana were buoyed by improved global demand for cocoa and oil as global manufacturers recommenced operations.

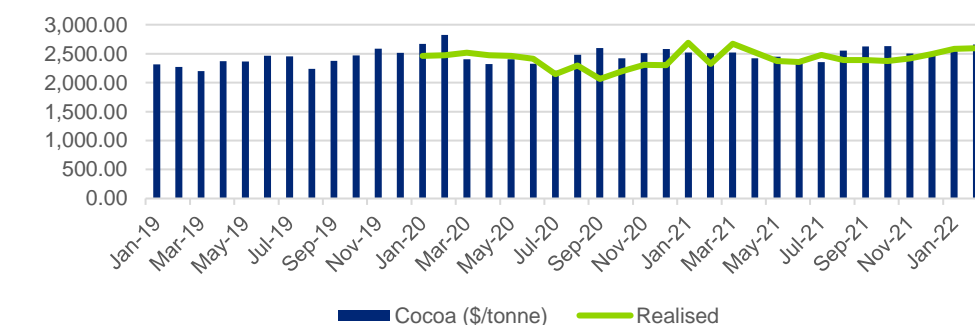
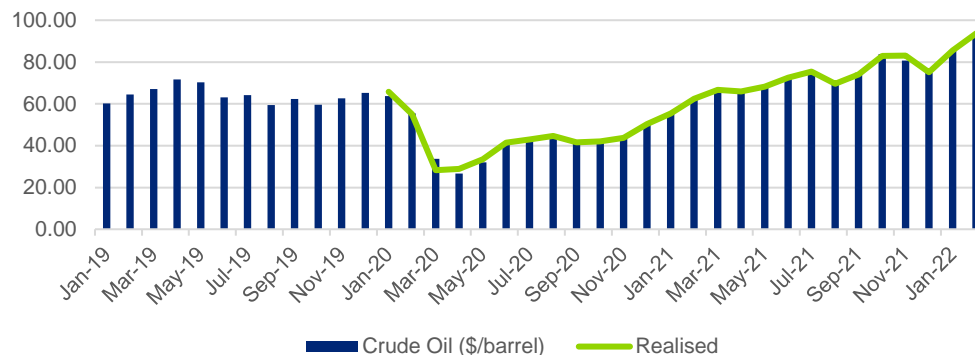
Current volatilities in global commodity prices seen in Q1 2022 are expected to persist given global pandemic uncertainties and an evolving trade terrain, particularly for oil, chemicals, manufacturing components and select agricultural produce.

Ghana maintains a positive trade balance



Sources: Ministry of Finance, Bank of Ghana and Sarpong Capital Research

Upticks in global oil prices to dominate the core commodity market



Sources: Bank of Ghana and Sarpong Capital Research

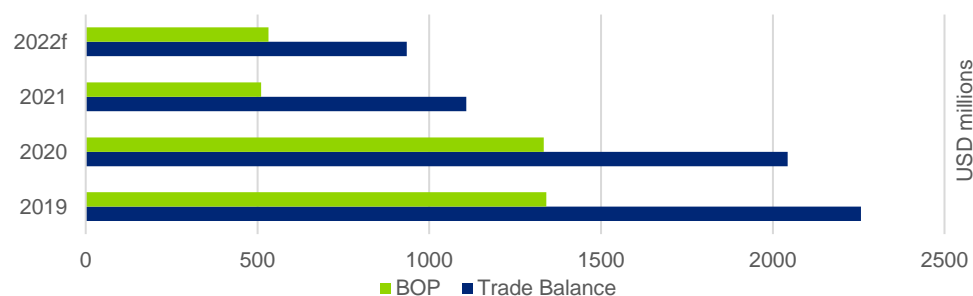
Ghana – External Sector

In the same vein, improved manufacturing and overall economic activity in 2021 resulted in an uptick in imports, which totalled \$13.6 billion compared with \$12.4 billion a year prior. In particular, the uptick can be attributed to the importation value of refined oil for various functions which grew by 43.8% to account for 20.0% of Ghana's import bill. Non-oil imports on the other hand only grew by a marginal 3.5%.

Ghana's trade balance stood at \$1.1 billion for 2021. We note that key growth notes for 2022 such as the current uptick in global oil prices will be eroded by supply chain challenges driving inflationary headwinds, as well as fuel import costs impacting the Country's trade balance in 2022. Thus, a conservative \$0.9 billion year-end balance is forecasted.

The Country's overall balance of payments is nonetheless expected to be upheld by a continued positive trade balance with increased pricing of global crude oil and new foreign currency financing. Outflows for costly imports, debt servicing and other service obligations will however undermine Ghana's external position, with an expected balance of payments for year-end 2022 similar to 2021.

Balance of Payments resilient but growth in outflows outpace growth in inflows



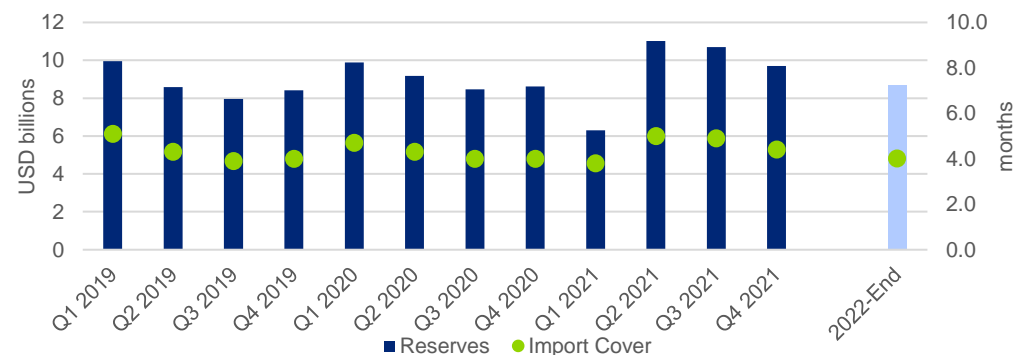
Sources: Ministry of Finance, Bank of Ghana and Sarpong Capital Research

Reserves

Ghana's external reserves stood at \$9.7 billion at the end of 2021. At this level reserves were sufficient to fund 4.4 months of imports. Given the boost received in Q2 2021 from international capital raising activity which augmented reserves to over \$11 billion (5 months of import cover) and subsequent use of funds for debt servicing, foreign exchange market intervention etc., the critical question to ask is, to what extent can Ghana deplete reserves for various economic functions and still maintain import cover of at least 4.0 months? It is our view that export proceeds must be augmented sustainably for a more stable external position. With uncertain capital raising levels in foreign currency for liability management, Ghana will strive to limit FCY outflows to currency interventions and FCY denominated procurement lines.

We anticipate a year-end 2022 reserve position of \$8.7 billion, sufficient for 4 months of imports.

Reserves expected to be sufficient for at least 4 months of imports in a delicate balancing act, alongside debt service obligations and defending the Cedi



Sources: Ministry of Finance, Bank of Ghana and Sarpong Capital Research

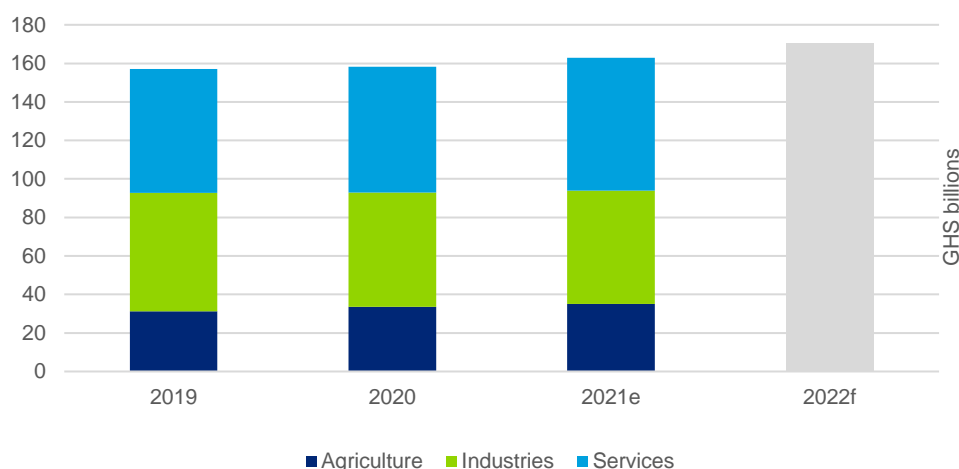
Ghana – Gross Domestic Product and Economic Segments

Emerging from the shallow recession of 2020, growth in 2021 was progressively encouraging. Output in Q1 2021 grew by 4.2% y-o-y, followed by 5.1% in Q2 2021 and 6.6% in Q3 2021, officially.

The Ghanaian economy has proved fairly resilient despite recurring Coronavirus waves and strains, as well as vaccination lulls- jointly driven by dosage supply and vaccine apathy. We estimate that Ghana's 2021 GDP grew by 3.0% year-on-year in real terms, to GHS 163.0 billion. We however further recognise that growth is masked by a base drift effect which when stripped, reveals a rather tepid performance.

Of the three broad segments –Agriculture, Industries and Services, GDP remains largely driven by the Industries and Services sectors at 36.1% and 42.4% respectively.

GDP expected to grow by 4.7% in real terms in 2022



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

GDP performance continues to be highly reflective of how much progress the Government has made in creating a viable business environment and well as its commitment to food security, long-term infrastructure investment and regional trade.

Thus, we expect 2022 GDP at a level of GHS 170.7 billion to be reflective of improved real growth of 4.7%, with similarly distributed sector contributions, barring no crippling global and local shocks. Expectations take into consideration limited ability to aggressively pursue development projects.

Agriculture

The Agriculture segment made steady rebounds in 2021 on account of increased cocoa output for export. Looking to 2022, we expect the main driver of growth of this segment to continue to be Cocoa, with steady demand-driven performance of crops, livestock and fishing to uphold stability of the segment's output.

Cocoa upholds Agriculture GDP

| AGRICULTURE | 2019 | 2020 | Q1 2021 | Q2 2021 | Q3 2021 | 2021e |
|--|---|------|---------|---------|---------|--|
| GDP (GHS billions) | 31.3 | 33.6 | 10.0 | 8.0 | 8.4 | 35.0 |
| Y-o-Y Change | 4.7% | 7.4% | 9.3% | 11.9% | 9.2% | 4.2% |
| <i>Notes on the Agriculture Sector</i> | <i>All sub-segments resilient(no negative y-o-y output), with the exception of Forestry and Logging</i> | | | | | <i>Significant improvements in Cocoa output leads this segment</i> |

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

Ghana – Gross Domestic Product and Economic Segments

Services

Pandemic-hit customer-facing services segments recorded 4.0% y-o-y growth for Q1 2021, 11.0% for Q2 2021 and 13.4% for Q3 2021 as the much-revered hospitality segment regained some footing following the reduction in non-essential travel. Trade, information & communication, education, professional services, and healthcare lead this segment with improved year-on-year performance. Overall, it is estimated that the Services segment grew some 6% year-on-year.

In 2022, we expect drivers of the segment to continue to be Information & Communication as well as Education, Healthcare, Professional services. More conservative rebounds are expected for the hospitality segment in line with persistently cautious global sentiments for travel and outdoor activities. Relaxation of COVID restrictions for events and inbound travel in March 2022 will contribute positively to performance of the segment.

Hospitality still struggling to recover while ICT drives Services output growth

| SERVICES | 2019 | 2020 | Q1 2021 | Q2 2021 | Q3 2021 | 2021e |
|-------------------------------------|--|------|--|------------|------------|--|
| GDP (GHS billions) | 64.3 | 65.3 | 18.3 | 16.1 | 17.8 | 69.2 |
| Y-o-Y Change | 7.6% | 1.5% | 4.0% | 11.0% | 13.4% | 6% |
| <i>Notes on the Services Sector</i> | <i>Trade and Hospitality stalled, Financial & Insurance segments resilient</i> | | <i>Information & Communication, Education and Healthcare thrived</i> | | | <i>Captures continued strong performance of Information & Communication, Education and Healthcare. A gradual rebound in hospitality is noted alongside improved output of Trade & professional services.</i> |

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

Industries

The resumption of manufacturing activities has supported growth of the industries sector at an estimated year-on-year rate of 7.5% in 2021. This is in addition to recorded strong output for utilities subsegments post-lockdown. Oil & Gas volatilities alongside stalled mining and quarrying activity have however masked performance of the industries segment which posted an estimated overall contraction of 0.8% in 2021.

We expect encouraging notes for the Oil & Gas segment in view of the global terrain, as well as for local manufacturing as import substitutes are sought. Further Industrial activity and government projects will buoy utilities and construction output in 2022 though curtailed by constrained CAPEX funding for government projects.

Beyond 2022, Government's 1D1F and a more enabling business environment will buoy growth of the industries segment.

Manufacturing picks up albeit sluggishly while Oil & Gas is expected to fair better in 2022

| INDUSTRIES | 2019 | 2020 | Q1 2021 | Q2 2021 | Q3 2021 | 2021e |
|---------------------------------------|---|-------|--|------------|------------|-------|
| GDP (GHS billions) | 61.5 | 59.3 | 16.1 | 13.7 | 14.6 | 58.8 |
| Y-o-Y Change | 6.4% | -3.6% | 1.3% | -4.3% | -2.0% | -0.8% |
| <i>Notes on the Industries Sector</i> | <i>Mining, Manufacturing and Construction stalled</i> | | <i>Whilst encouraging output growth was noted for Manufacturing and Utilities output, Oil & Gas and Mining activity contractions significantly suppressed the reported GDP growth of this segment.</i> | | | |

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

Ghana – Expectations for Economic Segments

| | Sub-segments | Expected to thrive | Expected to be relatively stable | Expected to require support | Sarpong Capital notes |
|---|---|--------------------|----------------------------------|-----------------------------|--|
| Energy and Natural Resources | Oil & Gas (Upstream, Refining and Services) | • | | | Expected uptick in global oil prices to be a plus, though elevated costs will subdue profits somewhat. |
| | Metals & Mining | | • | | Continued global competition for commodities in this bucket to persist. Ghana is expected to remain an active supplier. Government initiatives to boost revenue recognition will improve transparency. |
| | Power Generation | | • | | Ability to ensure cost reflective tariffs is key. |
| | Forestry and Products | | | • | Success factors are tied to off-taker agreements. Segment yet to recover. |
| | Alternative Energy | • | | | Climate preservation and SDG benchmarks to ensure growth, albeit sluggishly. Households may seek affordable alternative sources given higher overall energy prices, creating some market depth. |
| Technology, Media and Telecommunications | Broadcasting | | • | | Stable segment with high dependence on cash flows |
| | Advertising | | • | | Stable segment with high dependence on cash flows. Advertising via digital platforms is the new frontier. |
| | Film and Entertainment | | | • | Cash Flow intensive and in need of support framework |
| | Print Media | | | • | Cash Flow intensive and in need of support framework |
| | Sports and Entertainment | | | • | Cash Flow intensive and in need of support framework |
| | Data and Telecommunications | • | | | Though increased data dependence may not match with lost voice revenue, scale is key to profitability for operators. This is in addition to add-on fee-generating products. |

Ghana – Expectations for Economic Segments

| Sub-segments | Expected to thrive | Expected to be relatively stable | Expected to require support | Sarpong Capital notes |
|---|-------------------------------------|----------------------------------|-----------------------------|--|
| Financial Institutions and Real Estate (Developers & Managers) | Banking | | • | <p>Strong level of demand deposits. Savings and tenored deposits may wane given suppressed ability to save. A higher Cash Reserve Ratio of 12% will reduce liquidity for lending.</p> <p>Government securities to remain an overwhelmingly large asset class.</p> <p>Profitability depends on ability to stem spikes in operating expenses and preserve investment income given smaller investment returns.</p> <p>Non-Performing loans to remain elevated as banks strive to grow their loan portfolios marginally.</p> |
| | Insurance | | • | <p>Increased claims typically noted in periods of economic downturn. Increased insurance uptake to cushion the impact of risks crystallising will also be seen. Innovation required to boost investment income for insurance companies.</p> |
| | Savings & Loans | | • | <p>Expected increase in credit applications. Savings may be impacted by constrained disposable income.</p> |
| | Broker Dealers | • | | <p>Innovation required to maintain strong trading income levels, particularly in relation to foreign exchange and derivatives.</p> |
| | Asset Managers | | • | <p>Innovation is required to ensure value is not eroded given the squeeze in real returns</p> |
| | Financing Vehicles (REITs, etc) | | • | <p>Average volume of transactions expected as market participants remain cautious of risk/return dynamics</p> |
| | Industrial and Manufacturing | Construction | • | |

Ghana – Expectations for Economic Segments

| | Sub-segments | Expected to thrive | Expected to be relatively stable | Expected to require support | Sarpong Capital Footnotes |
|---|---|--------------------|----------------------------------|-----------------------------|---|
| Industrial and Manufacturing | Chemicals | | | • | Delayed recovery on account of tepid rebound of manufacturing processes. Uptick in global oil & gas prices as well as unrest between key suppliers to negatively impact segment. |
| | Agri-Processing | • | | | Global supply chain challenges to spur local content drive, in addition to 1D1F initiatives |
| | Packaging | • | | | To thrive on the back of recovery in manufacturing and local production drive. |
| Consumer Business and Transportation | Retailers (including Supermarket chains and Oil & Gas Retail Outlets) | | | • | Higher cost of goods and operating expenses to impact this capital/cash flow intensive segment. Financing will be required amidst smaller margins. |
| | Travel, Leisure and Hospitality | | | • | These sub-segments still haven't recovered from pandemic-induced lulls. Inflationary pressures also have a significant impact on operating expenses. Thus, margins will continue to be stifled in the short-term. |
| | Transportation (including Aviation & Haulage Business) | | | • | Though improved volumes have been seen, high operating costs will be passed to consumers of these services 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 increase. |
| | SMEs | | | • | Evolution of businesses will be in line with demand realities, whilst leverage on technology will be instrumental to survival. |

Ghana – Expectations for Economic Segments

| | Sub-segments | Expected to thrive | Expected to be relatively stable | Expected to require support | Sarpong Capital Footnotes |
|---|-----------------------|--------------------|----------------------------------|-----------------------------|--|
| Agriculture | Crops | • | | | Priority segments to be upheld by government and humanitarian initiatives spanning off-taker arrangements, irrigation projects and building of storage facilities. |
| | Livestock | • | | | |
| | By Products | | • | | Dependent on off-taker arrangements. |
| 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. |
| | Education | | • | | Government initiatives will uphold the education sector. Private education to remain stable. |
| | Airports | | | • | Marginally improved passenger travel to aid gradual rebound of airports and associated services. |
| | Seaports and Harbours | • | | | Improved trade activity to support rebound of the segment. This is in addition to closer monitoring of taxes/IGR. |
| | Railway | | • | | |
| | Non-Profits | | | | • |

Ghana – Gross Domestic Product and Economic Segments

Performance Trend of Select Stock Exchange Listed Real Sector Entities.

| MTN GHANA Group (Teleco) | 2019 | 2020 | 2021 |
|--|--------------|--------------|--------------|
| Total Assets (GHS billions) | 10.0 | 14.2 | 17.5 |
| Revenue (GHS billions) | 5.2 | 6.0 | 7.7 |
| Cost of Services/Hardware (GHS billions) | 1.0 | 1.1 | 1.4 |
| Operating Expenses (GHS billions) | 1.5 | 1.8 | 2.1 |
| Finance Costs (GHS billions) | 0.5 | 0.4 | 0.4 |
| PBT (GHS billions) | 1.4 | 2.0 | 2.8 |
| <i>Revenue Growth</i> | <i>22.8%</i> | <i>16.4</i> | <i>28.0%</i> |
| <i>Cost-to-Gross Profit</i> | <i>37.0%</i> | <i>35.6%</i> | <i>33.2%</i> |
| <i>Pre-Tax Return on avg. Equity</i> | <i>55.4%</i> | <i>64.2%</i> | <i>74.0%</i> |
| <i>Pre-Tax Return on avg. Assets</i> | <i>20.4%</i> | <i>16.3%</i> | <i>17.9%</i> |

| TOTAL (Downstream Oil & Gas Group) | 2019 | 2020 | 2021 |
|---|--------------|--------------|--------------|
| Total Assets (GHS billions) | 0.9 | 0.9 | 1.1 |
| Revenue (GHS billions) | 2.6 | 2.4 | 3.2 |
| Cost of Goods Sold (GHS billions) | 2.3 | 2.0 | 2.9 |
| Operating Expenses (GHS billions) | 0.2 | 0.2 | 0.2 |
| Net Finance Costs (GHS millions) | 20.1 | 9.3 | 0.5 |
| PBT (GHS millions) | 93.6 | 151.9 | 148.8 |
| <i>Revenue Growth</i> | <i>10.4%</i> | <i>-8.9%</i> | <i>34.8%</i> |
| <i>Cost-to-Gross Profit</i> | <i>66.1%</i> | <i>54.2%</i> | <i>64.1%</i> |
| <i>Pre-Tax Return on avg. Equity</i> | <i>42.4%</i> | <i>51.0%</i> | <i>38.8%</i> |
| <i>Pre-Tax Return on avg. Assets</i> | <i>10.9%</i> | <i>16.9%</i> | <i>14.6%</i> |

| ETI Group (Banking) | 2019 | 2020 | 2021 |
|---|--------------|--------------|--------------|
| Total Assets (GHS billions) | 130.9 | 148.7 | 163.7 |
| Loans & Advances - Customers (GHS billions) | 51.4 | 53.0 | 57.6 |
| Total Deposits (GHS billions) | 102.2 | 118.6 | 131.1 |
| Interest Income (GHS billions) | 7.4 | 7.8 | 8.5 |
| Non-Interest Income (GHS billions) | 4.6 | 4.3 | 4.7 |
| Operating Expenses (GHS billions) | 5.6 | 5.9 | 5.9 |
| Impairment Charge (GHS billions) | 0.7 | 1.3 | 1.2 |
| PBT (GHS billions) | 2.1 | 1.0 | 2.8 |
| <i>Net Interest Spread</i> | <i>53.1%</i> | <i>65.2%</i> | <i>63.3%</i> |
| <i>Cost-to-Operating Income</i> | <i>66.2%</i> | <i>62.7%</i> | <i>58.7%</i> |
| <i>Pre-Tax Return on avg. Equity</i> | <i>22.5%</i> | <i>8.8%</i> | <i>22.7%</i> |
| <i>Pre-Tax Return on avg. Assets</i> | <i>1.8%</i> | <i>0.7%</i> | <i>1.8%</i> |

| FANMILK (Food & Beverage) | 2019 | 2020 | 2021 |
|--------------------------------------|--------------|---------------|---------------|
| Total Assets (GHS millions) | 375.8 | 436.3 | 546.2 |
| Revenue (GHS millions) | 424.5 | 373.6 | 468.1 |
| Cost of Goods Sold (GHS millions) | 254.2 | 253.6 | 344.8 |
| Operating Expenses (GHS millions) | 142.0 | 122.1 | 149.3 |
| Finance Costs (GHS millions) | 2.8 | 2.1 | 3.3 |
| PBT (GHS millions) | 38.7 | 0.8 | -20.9 |
| <i>Revenue Growth</i> | <i>9.0%</i> | <i>-12.0%</i> | <i>25.3%</i> |
| <i>Cost-to-Gross Profit</i> | <i>83.4%</i> | <i>101.7%</i> | <i>121.1%</i> |
| <i>Pre-Tax Return on avg. Equity</i> | <i>16.0%</i> | <i>0.3%</i> | <i>-8.4%</i> |
| <i>Pre-Tax Return on avg. Assets</i> | <i>11.0%</i> | <i>0.2%</i> | <i>-4.2%</i> |

Ghana – Rates

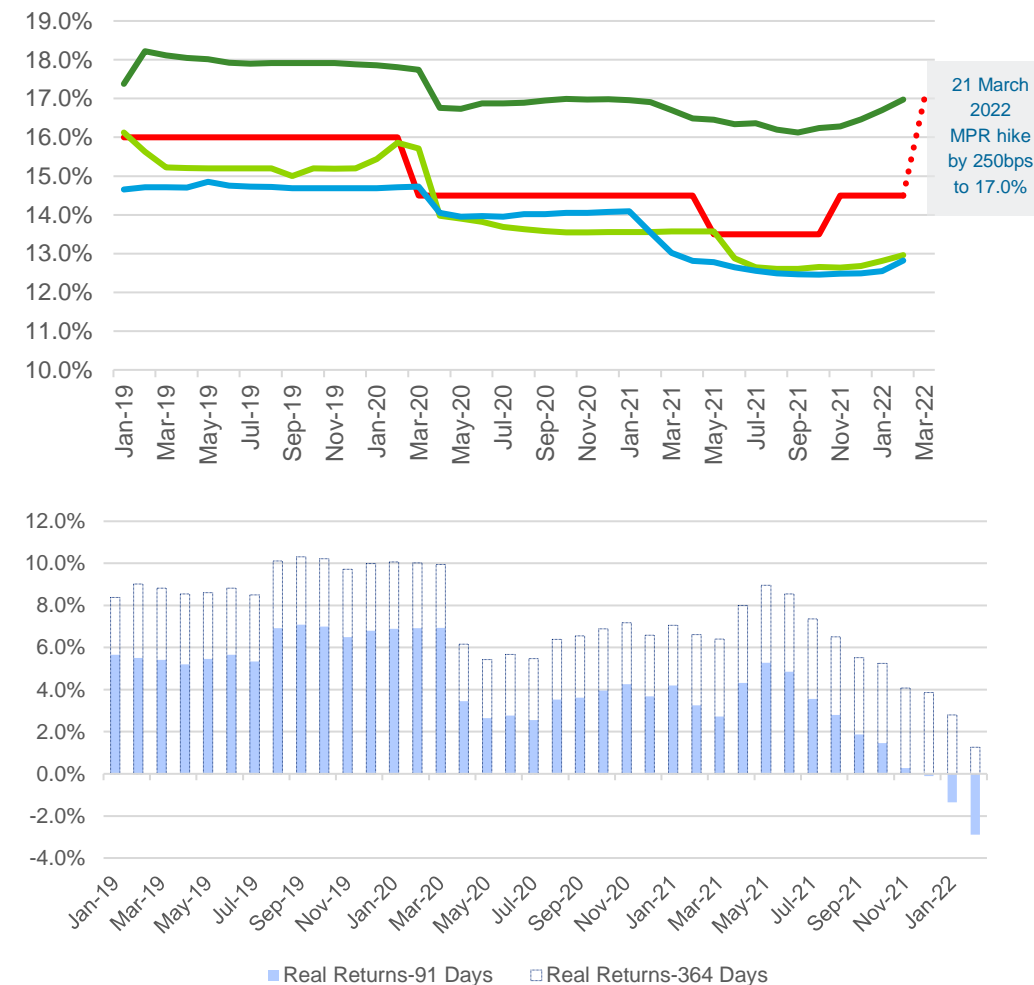
Rate Environment

Following the prime rate cut of March 2020 from 16% to 14.5%, the Monetary Policy Committee (MPC) maintained a neutral policy stance until May 2021. A 100bps cut to 13.5% was announced on 31 May 2021. It was expected that a lower rate environment and increased money supply will lead to increased credit growth to the private sector, and a consequent acceleration in economic growth.

Inflationary pressures however soared in Q4 2021, persistently exceeding the Government's target band of 8% ± 2%. Thus, effective 22 November 2021, the Monetary Policy Committee raised the prime rate by 100bps to 14.5% largely on account of the marked elevation in inflationary pressures and further risks to inflation outlook from both a global and local standpoint, impacting the Central Bank's price stability mandate. The policy rate of 14.5% was retained through Q1 2022 as policy translation trends were observed. However, shrinking real interest rates with negative real returns in some cases had grave consequences for asset managers and the overall sentiments of investors who flocked to Ghana seeking better rates than elsewhere during the pandemic.

The Monetary Policy Committee thus voted to increase the prime rate by 250bps to 17.0% on 21 March 2022. With the global community having indicated the end of quantitative easing policies in 2022, current reverberating tensions in Eastern Europe are fuelling a less aggressive stance in reality. Ghana on the other hand has had tough decisions to make with waning investor real value, soaring inflation and currency depreciation risks.

An aggressive policy stance is being adopted to control inflation and currency depreciation risks, as well as improve real returns



Sources: Bank of Ghana and Sarpong Capital Research

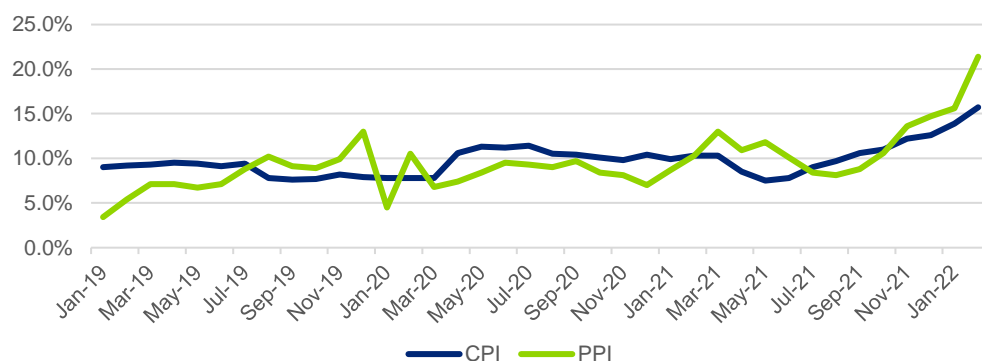
Ghana – Rates

Inflationary Pressures

Over the last 24 months, inflation in Ghana has been elevated. Pandemic-induced inflationary headwinds of 2020 persisted into Q1 2021. A base drift effect caused rates to temper somewhat in Q2 2021. However, in recent months, inflationary pressures have breached the Government's target band of $8\% \pm 2\%$ with December 2021 consumer price inflation (CPI) of 12.6%, January 2022 CPI of 13.9% and February 2022 CPI of 15.7%. Producer price inflation also rose 21.4% y-o-y in February 2022.

Initially thought to be transitory, inflationary pressures are set to be more persistent, particularly for import-dependent nations like Ghana. The impact of supply chain delays stoking price pressures on both raw materials and finished goods, higher energy prices and the overall elevation in the cost of doing business globally, will lead to higher year-on-year pressures through the first half of 2022. Companies will be forced to pass on rising costs to consumers.

Ghana not insulated from global inflationary headwinds



Sources: Ghana Statistical Service and Sarpong Capital Research

Key drivers of consumer prices and producer prices seen and expected are as follows:

| 2021 CPI Drivers | 2022 Expected CPI Drivers |
|--|--|
| <ul style="list-style-type: none"> Jointly driven by food and non-food price pressures Utilities and transport prices key contributors to increases particularly in the Greater Accra region Regionally, Upper West and Ashanti regions recorded highest year on year price jumps driven by food prices | <ul style="list-style-type: none"> Elevated oil prices to impact transport prices in particular Supply chain disruptions to impact raw materials and imported finished goods The pass through effect of a depreciating currency will accentuate inflationary pressures in the near term Elevated cost of doing business to seep into all consumer prices as businesses pass on costs |
| 2021 PPI Drivers | 2022 Expected PPI Drivers |
| <ul style="list-style-type: none"> Marked headwinds seen for the Manufacturing segment particularly food production, processing and preservation activities Manufacturing of petroleum products experience significant price jumps as did manufacturing of basic metals-iron & steel | <ul style="list-style-type: none"> Upticks in global oil prices to impact production of electricity and other fuel intensive industrial processes. Manufacturing to continually be impacted by supply chain disruptions and global inflationary pressures impacting raw material availability and cost Commodity price volatilities |

Sources: Ghana Statistical Service and Sarpong Capital Research

Ghana – Rates

Exchange Rates

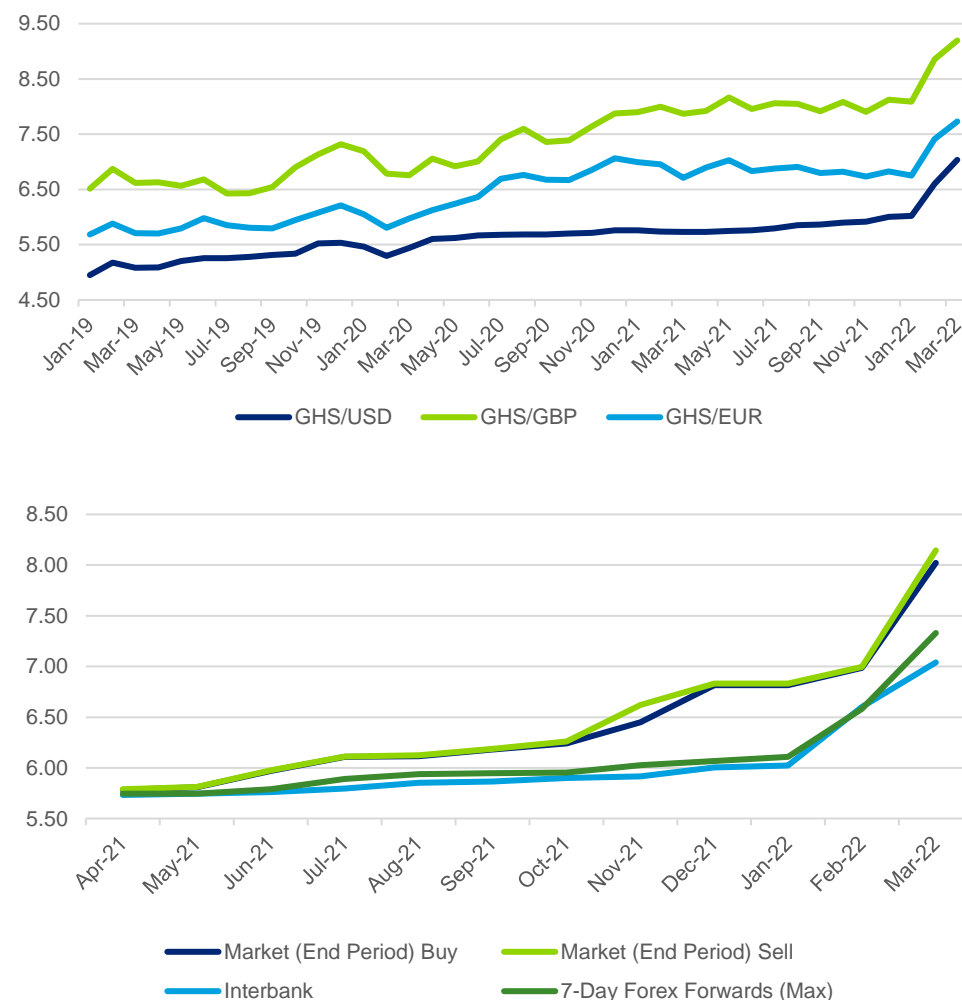
The Ghanaian Cedi has depreciated notably in traded value year to date. On the interbank market, volatilities appeared comparatively subdued vis a vis actual traded values, depreciating by 4.3% on the interbank market in 2021. Traders however recorded depreciation of up to 100pips above the interbank rates in H2 2021 and into Q1 2022 as global inflation fuelled dynamics. Increased FX demand and higher currency pricing particularly by foreign sell-side operators, continue to drive rates up.

Alarming, interbank bilateral exchange rates jumped markedly in February and March 2022, with the Cedi valued approximately 15% lower in March 2022 than the start of the year. In addition, FX forward sales in March 2022 was reflective of a 75+pip increase in what the Bank of Ghana accepted compared with prior month changes of 20-45pips, prompting questions around acceptance of devaluation and attempt to harmonise rates.

It appears that in addition to legitimate needs for foreign exchange, the current economic profile of Ghana and soaring inflation is encouraging people to take positions in USD, as a better store of value. In addition, market dynamics, in terms of depth and make-up of participants/market makers, pose challenges for exchange rate stability.

Examining the impact of inflationary pressures, we note that the inflation differential indicates interbank rates may not remain at current levels. It is our considered view that sustainability of currently promoted official/interbank rates is doubtful. However, recent monetary policy measures will stem the pace of depreciation.

An official currency devaluation may be unavoidable



Sources: Bank of Ghana and Sarpong Capital Research

Ghana – SC Traders' Perspective

Fixed Income

Activity in the secondary market grew in 2021 owing to a year-to-date traded volume increase from GHS 108.4 billion in December 2020 to GHS 208.8 billion for the corresponding 2021 period. A myriad of factors contributed to this increase in secondary market activity. Firstly, offshore participants in the market increased their activity following the successful and peaceful election of 2020 December.

Furthermore, reduced bond supply from the government saw yields drop by 200 basis points by the end of the Q2 2021. As a result, 2-year papers saw yields decline to 16.25% whilst longer-dated papers (39s) traded at 18.50%. However, in Q3, upward pressures on yields were felt as corporate institutions activity sought to unlock liquidity with liquidation of said papers. These pressures on yields followed through till the end of the business year with yields shooting high in same period. 2023 maturities were badly affected with yields reaching over 20% by end of Q3 2021. A cedi liquidity squeeze owing to corporate tax obligations in line with tightening reserve requirements for dividend-paying banks contributed to this.

Globally, concerns around US inflation and possible tightening of monetary policy by the US Federal Reserve meant capital markets faced global Emerging Market selloffs. Ghana's domestic and international bonds suffered as a result, owing to continuous growing debt stock. The negative outlook surrounding the nation's debt sustainability played a major role here.

Thus, a reversal in yields began in October 2021 as offshore investors dumped Ghana bonds for safer bets, rather than yields. In addition, short to medium-term securities

(up to the 27s), dominated trades on the market. The major concern for Ghana will be the country's debt sustainability and overall fiscal position. In the 2022 budget, the government projected a 2021 fiscal deficit of 12.1%. Due to this, nervous market sentiments have been triggered amongst investors.

In 2022, a major concern remains Ghana's high debt-service costs (interest payments singularly accounts for 46% of projected revenue). Low debt affordability in unfavourable international debt capital market as Covid-related global monetary stimulus presents another obstacle for the Ghanaian market.

Finally, the slow pace of fiscal consolidation continues to increase the possibility that the country will slip into a debt trap. It is overly risky that the government is highly dependent on an Electronic Levy to ensure additional revenue generation. Nevertheless, the possibility of an IMF programme sooner or later remains on the table. It is expected that rates will continue to increase with a steepening of the yield curve as investors demand higher premiums for commensurately elevated credit risks.

Investment returns being stifled are testy for investor sentiments. Lower real interest rates also negatively impact banking industry earnings significantly. The market paused in the days leading up to the March 2022 MPC meeting. Following the decision to hike the prime rate to 17.0%, investors have been encouraged by better real returns, with yields on the secondary market gravitating upwards accordingly. Interest rates on 91-Day bills have jumped some 120bps in March 2022 over February rates, signalling improvements in real returns. Considering sub-Saharan peer performance in terms of real returns and margins, this is a positive note for Ghana.

Ghana – SC Traders’ Perspective

Equities

Market capitalisation on the Ghana Stock Exchange (GSE) grew by 18.6% to GHS 64.5 billion in 2021, compared to the 10.1% contraction in the prior year. Total traded volumes of equity was 486.6 million in the year with a corresponding value of GHS 533.3 million, 30.0% and 7.3% lower than the prior year respectively. It was a quiet primary issue and IPO year, owing to tepid market conditions as entities struggled to find their footing .

As at December 2021, foreign companies constituted the bulk of trading activity with 73.2% market share of volume traded and 68.1% market share of value traded.

Similar to the prior year, Information and Communications Technology (ICT) participant, MTNGH lead both traded volumes and traded value as current realities continue to uphold leverage on data services alongside strong business fundamentals of the telecommunications provider, driving investor decisions. Traded volume totalling 27.4 million represented 85.8% of total volumes, while traded value of GHS 31.6 million represented 72.38% of total traded value. We expect this trend to continue in the near term given the operator’s profile.

The GSE Composite Index maintained a growth trajectory from the start of the year to close at 2,789.34, 43.7% higher than the corresponding 2020 period - A trend seen into early 2022. Concurrently, the Financial Stock Index stood at 2,151.85, up 20.7%, in 2021 and further inching up in Q1 2022. Finance sector stocks came in second in volume and value traded, driven by Banking operator CAL Bank in terms of volume and Banking operator GCB in terms of value.

Share price gains were particularly noted for listed entities operating in the banking, oil & gas distribution, food and beverage and agriculture(oil palm processing) listed entities. However mining, pharmaceuticals manufacturing, development banking and breweries operators offer better price to earnings ratios.

Though Information and Communications Technology (ICT) and Financial Services lead trading activity, global trends of low priced stock gains, reflected in the market

| Top 5 Price Change Leaders | % Change in Share Price Jan-Dec 2021 | Share Price Dec 2021 GHS | Top P/E Ratios | P/E Ratio |
|----------------------------|--------------------------------------|--------------------------|----------------|-----------|
| FML | 270.4% | 4.00 | GSR | 16.54 |
| BOPP | 232.5% | 6.65 | DASPHARMA | 16.13 |
| EGL | 99.3% | 2.79 | TLW | 15.95 |
| SOGEGH | 87.5% | 1.20 | ADB | 14.62 |
| Total | 77.4% | 5.02 | GGBL | 12.50 |

Sources: Bank of Ghana and Sarpong Capital Research

Looking ahead, the Ghanaian equities market is expected to largely be stable with existing entities in the ICT and banking sector driving growth, as seen in Q1 2022 performance. Initiatives to spur manufacturing activity for consumer goods, food & beverage and agricultural produce for export may also drive upticks in performance somewhat.

It is our opinion that the equities market in Ghana is yet to demonstrate depth and sophistication, impacting investor sentiments. Thus, selective participation persists within and outside the exchange-listed equities space.

Ghana – SC Traders' Perspective

Foreign Exchange

The USD/GHS market opened the 2021 calendar year at 5.70 on the interbank market. The pair remained fairly stable, hitting 5.80 at the end of the first quarter.

The Ghana Cedi recorded marginal gains at the beginning of Q2 of 2021, on the back of renewed investor confidence in the economy, as reflected in declining yields on Ghana bonds. The pair touched 5.77 in Q2 before closing the quarter at 5.92 on surging corporate demand for the greenback.

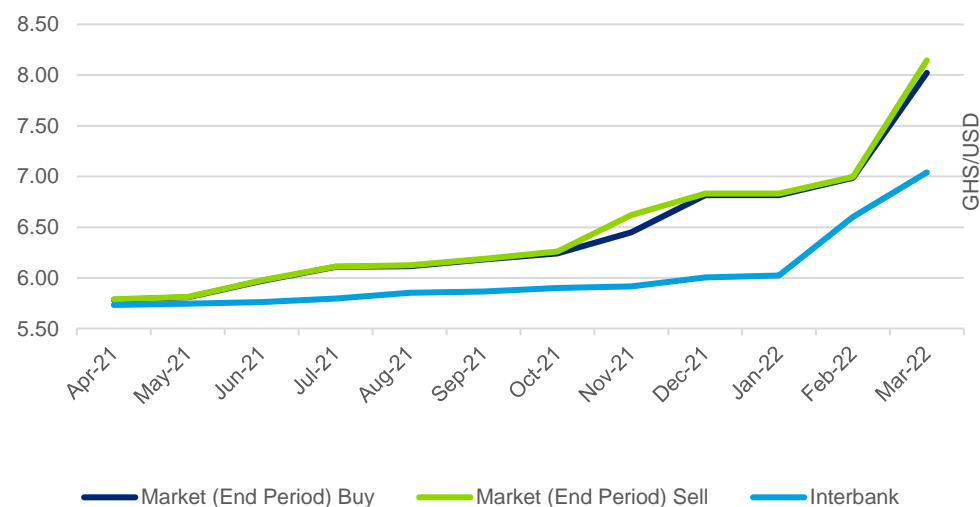
In the last half of 2021, the Cedi came under immense pressure, thus breaking the 6.00 level in July and finally touching 6.37 by the end of the year, after touching a high 6.60 in the second half. Concerns about Ghana's public debt and spiked cautionary moves by both foreign investors and local corporates. Yields rose by some 100bp to 250bp along the local currency-denominated bond curve. The policy rate was raised to 14.5% accordingly in response to the market and other considerations. By the close of 2021, expectations for the local unit was unfavourable, as players kept their cards to their chest in anticipation of the Country's next move. A hopeful sign is all the market waited for.

The USD/GHS market opened 2022 trading on the interbank market at 6.39 levels, but quickly began to fall sharply. In the absence of major assurance that the Country's revenue mobilization efforts have improved dramatically. Coupled with strong corporate demand, the pair continued to be under pressure in the early months of 2022, testing the 8.00 levels.

Panic reactions and actual corporate demand expected to further push the rate higher crystallised. Thus GHS/USD stood at about 8.40 in the week of 21 March 2022. However, the Cedi has historically come under such pressure, and depreciation is expected to slow down later in the year. The Government's recent policy rate hike partly geared at stemming the pace of currency depreciation, is expected to do just that, but not necessarily drive reversals.

Investor confidence is also expected to improve when government revenue mobilization efforts begin to bear fruits. Longer-term economic health with less dependence on imports or significantly higher export levels remain the most significant currency appreciation measure.

Rate convergence unlikely, though slower depreciation is expected.



Sources: Bank of Ghana and Sarpong Capital Markets

Summary of 2022 Outlook

| 2022 Economic Outlook

“We have to be impatient in moving Africa forward.”

Akinwunmi Adesina
President, AFRICAN DEVELOPMENT BANK

Summary of 2022 Outlook – Outlook Statement

The world stage for 2022 leaves much to be desired. United in the fight against inflationary pressures, supply chain challenges, COVID variants amongst other themes, all nations continue to be impacted, albeit to varying extents. Specific to sub-Saharan Africa, the debt conversation as a result of persistent budget deficits, remains most paramount, impacting sustained economic growth and credit risk.

For Ghana, given waning investor sentiments in H2 2021, there continue to be tough fiscal consolidation decisions to be made, and indeed lessons to be learned in crises management from noted investor exits.

Key questions remain at the fore:

- Will tax revenue be buoyed by proposed initiatives and will expenditure cuts proposed be sufficient, or will lawmakers have to go back to the drawing board for further strategies?
- Will Ghana be able to keep exchange rates at current levels, given inflationary pressures and restricted ability to deplete reserves in defense of the currency?
- What will the threat level of any new coronavirus variants be?
- What can and will be done to manage investor sentiments?
- Can the government successfully stimulate lending to the real sector for longer-term economic growth whilst minimising the non-performance of loans?
- To what extent will current fiscal constraints particularly for CAPEX, limit grand projects of the current government such as 1D1F, proposed establishment of 111 hospitals and others?

In terms of government finances, we note that revenue targets for 2022 will fall short by an estimated 4.5%, largely on account of expected delays in implementing new initiatives. Constrained profits of corporates given the impact of elevated inflation on OPEX, and the impact of higher domestic and US Fed rate environments on funding costs, will also affect Government's tax revenue. Fiscal consolidation may thus be a further way off as additional LCY and FCY funding is keenly sought for liability management, project-tied financing and the budget as a whole.

If revenues are not bolstered and if expenditure cuts are inadequate in reality, Ghana may reluctantly return to the IMF for financing, particularly project-tied funding alongside ongoing DFI support, with attendant fiscal discipline conditions. As Ghana strives to preserve FCY assets in view of uncertainties around FCY financing *vis a vis* expected outflow, good reserve levels will nonetheless continue to uphold import cover at or above 4 months (from exports, capital raising and any SDR allocations).

Overall, marked rebounds in the economy are not anticipated until well into 2022. Sectors such as Trade, Information & Communication, Construction, Agriculture, Manufacturing and Healthcare are subsegments will drive projected growth numbers with an average GDP growth of 4.7% expected for the year. Consumption patterns will be instrumental to determining sectors that will thrive.

Elevated interest rates and sluggish growth in private sector credits- reflecting high credit risk profiles, will curtail ambitious GDP projections. As apathy for extending loans to real sector operators remains, crowding out effect is set to persist in view of Government's expected borrowing levels.

Summary of 2022 Outlook – Outlook Statement (Contd.)

The policy rate, recently raised to 17.0%, is expected to be kept at this level through Q2 2022 as policy translation trends continue to be observed. Key indicators would be real returns, investor confidence, mid-long term disinflation and stabilisation of the Cedi against global currencies. Further hikes may be seen later in 2022 with keen watch on global monetary policy decisions.

Strong inflationary pressures will persist in the near term beyond the upper limit of the Government's 8±2 % threshold, before abating in H2 2022. Global inflationary pressures impacting raw material sourcing, as well as an overall elevation in the cost of doing business may further lead companies to pass on costs to already constrained consumer wallets. This presents a key risk to marginal propensity to save or to invest.

Stabilisation of the Cedi is expected in the near term, though risks of further depreciation remain imminent. Inflationary pressures and unachieved economic targets will be triggers, given limited ability to deplete reserves to shore up the currency.

Summary of 2022 Outlook – Key Indicators

| | 2021 (Provisional) | 2022 (Outlook) | |
|--|--------------------|----------------|---|
| Key Rates | | | |
| Inflation – CPI (End Period) | 12.6% | 9.2% | ↓ |
| Inflation – PPI (End Period) | 14.7% | 13.6% | ↓ |
| Currency Depreciation – (End Period) | 9.8% | >24.7% | ↑ |
| Monetary Policy Rate (End Period) | 14.5% | 19.0% | ↑ |
| Key Ratios | | | |
| Deficit to real GDP | 25.3% | 21.2% | ↓ |
| Deficit to nominal GDP | 9.4% | 8.0% | ↓ |
| Debt to real GDP | 215.8% | 230.2% | ↑ |
| Debt to nominal GDP | 80.1% | 86.9% | ↑ |
| Trade Balance to nominal GDP | 1.5% | 1.3% | ↓ |
| Overall Balance of Payments to nominal GDP | 0.7% | 0.7% | ↔ |
| Other Macroeconomic Indicators | | | |
| GDP Growth (FY estimate) | 3.0% | 4.7% | ↑ |
| Reserve (End Period) | \$9.7 billion | \$ 8.7 billion | ↓ |
| Import Cover | 4.4 | 4.0 | ↓ |

SC | SARPONG CAPITAL

RESEARCH

Yomi Akinola,
Head, Research
+234-909-8636660, +233-551-167078
omayomi-akinola@sarponcapital.com

Biggles Amponsah,
Head, Institutional Capital Markets
+233-244-113265
bamponsah@sarponcapital.com

Marian Nyamekye-Boamah,
Senior Analyst, FICC
+233-505-639885
mnyamekye-boamah@sarponcapital.com

Lois Asante
Analyst, FICC
+233-264-349715
lasante@sarponcapital.com