

May 22, 2023

### Ghana Market Review

**IMF deal kickstarts painful but necessary fiscal adjustment:** The IMF's approval of Ghana's programme last week kickstarted the macroeconomic and structural reforms envisaged under the programme, headlined by frontloaded fiscal adjustments to restore macroeconomic, fiscal and debt sustainability.

The fiscal strategy hinges on ambitious revenue growth and strong expenditure rationalisation at the programme's start, which will be gradually replaced by growth-enhancing and social spending as the revenue-enhancing efforts create the needed fiscal space. The government has set the primary balance (on a commitment basis) as a fiscal anchor targeting a total fiscal adjustment equivalent to 5.1% of GDP by 2026, with an immediate objective to achieve a primary surplus of 1.5% by 2025 to be maintained at least until 2028. The 2023 budget already targets a 1% increase in non-oil revenue for 2023, complemented by an additional 0.5% of GDP in revenue from the oil sector (due to the expiration of the 5-Year capital allowance). The move toward full cost recovery in the utility sector as part of the prior actions has resulted in significant quarterly increases in utility tariffs thus far in 2023.

The 2023 budget also envisaged a total downward adjustment in expenditure equivalent to 2% of GDP from the reduction in the compensation of employees (from wage moderation and net attrition) equal to 0.5% of GDP, lower capping of transfers to earmarked funds, reprioritisation of CAPEX and the strengthening of expenditure controls for MDAs and statutory funds among others. Together the revenue and expenditure controls are expected to yield a 3.1% compression of the primary deficit to 0.5% of GDP in 2023 and to a surplus of 0.5% by 2024. While this ambitious and frontloaded fiscal adjustment, hinged largely on revenue growth, will be painful and growth-limiting, they are necessary to restore macroeconomic and debt sustainability and set the stage for robust and inclusive growth.

**Cedi set for a corrective run from the imminent BoP support:** The positive news effect of the approval lifted the Cedi, with USDGHS pair closing last week 9.5% stronger (+8.6% YTD). The approval also triggered an immediate disbursement of SDR 451.5 Mn (about US\$600 Mn) towards budgetary support, adding a timely boost to the depleted reserves.

However, the estimated BoP financing gap throughout the programme is US\$15Bn, with the US\$3Bn package under the ECF making up just 20% of the BoP needs. The programme envisages additional funding from the World Bank, AFDB and other multilateral partners and significant savings on external debt service to close the BoP gap. Thus, with additional funding tied to the programme, the exchange rate outlook hinges on the timeframe for completing the external debt operation and successful bi-annual reviews under the programme.

**T-bill yields continued higher amidst the high rollover obligation:** Investor demand at last week's T-bill auction was broadly unchanged, with the GH¢2.72Bn bid and uptake across the 91 & 182 – day tenors falling marginally short of the target but exceeded the refinancing obligation due today, May 22, 2022, by 5%. Again, the closing yields climbed 64bps and 172bps higher to 20.56% and 23.36%, respectively. With the IMF deal set to unlock other concessional funding in the coming months, T-bill could resume a decline in Q3 2023.

**Secondary market Activity:** The narrative on the secondary bonds market is indifferent as trading interest remains muted. We recorded an aggregate turnover of GH¢1.24Bn across bills and bonds last week, with bills accounting for almost 70% of the aggregate turnover for the week.

**T-bill auction in the week ahead:** The Treasury targets a gross issuance worth GH¢3.43Bn across the 91-day to 364-day tenors at the next T-bill auction slated for Friday, May 26, 2023. Given the sizeable refinancing obligation, we envisage under subscription at the auction with yields set to climb higher.

Cedi Performance Against Major Currencies					
GHS¢	US\$	GB£	€	JP¥	CN¥
<b>Interbank Ref. rate</b>	10.81	13.50	11.71	0.08	1.54
<b>W/W change</b>	1.40%	1.19%	1.67%	2.80%	2.19%
<b>YTD Change</b>	-20.7%	-23.60%	-21.9%	-17.43%	-19.6%
<b>Indicative retail rate</b>	11.00	13.80	12.00	1.53	0.08
<b>W/W change</b>	9.5%	9.1%	9.6%	9.6%	9.6%
<b>YTD change</b>	8.6%	4.0%	5.0%	-8.2%	-5.9%

Source: GCB Capital Research, Bank of Ghana, Oanda

Snapshot of Monetary Indicators and Inflation			
	Current	Previous	Change
Interbank Rate (%)	25.94%	25.87%	0.07%
April-23 Inflation	41.2%	45%	-3.80%
1-Yr Average Inflation	41.48%	40%	+1.48%
MPR (%)	29.50%	29.50%	+150bps
Real MPR	-11.7%	-15.5%	+3.8%
GRR (%)	26.45%	25.76%	+0.69%

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T-Bill Clearing Yields				
	Current	Previous	Change	Real yield
91-day	20.56%	20.43%	0.64%	-14.27%
182-day	23.36%	22.96%	1.72%	-12.47%
364-day	27.59%	27.59%	0.00%	-9.17%

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The Ghana Market Summary			
	Current	Previous	Change
<b>Bid (GH¢'M)</b>	2,728.02	2,782.44	-2%
<b>Issuance (GH¢'M)</b>	2,728.02	2,781.38	-2%
<b>Target (GH¢'M)</b>	2,732	3,333	-18%
<b>Maturity (GH¢'M)</b>	2,598.46	3,171.82	-18%
<b>Target coverage ratio</b>	1.00x	0.83x	n/a
<b>Maturity coverage ratio</b>	1.05x	0.88x	n/a
<b>Bid/Cover ratio</b>	1.00x	1.00x	n/a
The Week Ahead			
<b>Issuance Target - T-bills (GH¢'mn)</b>	3,431	2,732	25.59%
<b>Maturity -T-bills (GH¢'Bn)</b>	3,263.02	2,598.46	25.58%
Secondary Market Activity			
<b>Turnover – Bonds GH¢'Bn</b>	0.381	0.038	901.94%
<b>Turnover – Notes &amp; Bills GH¢'Bn</b>	0.861	0.856	0.57%

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Week 3: Performance of Selected African Sovereign Bonds					
Country/Ratings	Maturity	Current Price		Yield-to-Maturity	
Fitch/Moody's/S&P		Bid	Ask	Bid	Ask
Ghana RD/CA/SD	GHA 7% 08/07/23	44.7	55.15	420.16%	276.2%
	GHA 8% 05/07/42	34.38	35.98	26.194%	26.09%
	GHA8% 03/11/61	33.2	35.45	24.30%	22.87%
Egypt B+/B3/B	EGPT 4.55 11/20/23	81.1	82.03	22.052%	21.19%
	EGPT 6% 04/30/40	50.48	52.09	14.997%	14.55%
	EGPT 7% 02/16/61	49.51	50.65	15.199%	14.86%
Kenya B/B2/B	KENINT 6% 6/24/24	85.923	87.434	21.38%	19.66%
	KENINT 6.3 1/23/34	64.635	66.04	12.33%	12.01%
	KENINT 8% 2/28/48	65.94	67.67	12.823%	12.50%
Nigeria B-/Caa1/B-	NGERIA 6% 7/12/23	98.68	99782	13.204%	7.37%
	NGERIA 7% 9/28/33	68.58	69.73	12.954%	12.69%
	NGERIA 8% 9/28/51	64.74	65.96	12.946%	12.71%
South Africa BB-/Ba2/BB-	SOAF 4.665 1/17/24	98.89	99.27	6.27%	5.73%
	SOAF 5 10/12/46	67.28	68.43	7.926%	7.775%
	SOAF 7.3 04/20/52	85.31	86.04	8.70%	8.63%
Cote Ivoire BB-/Ba3/BB-	IVYCST 5% 07/23/24	96.41	97.96	8.52%	7.13%
	IVYCST 6% 06/15/33	83.58	85.01	8.58%	8.35%
	IVYCST 6% 03/22/48	67.01	68.15	10.36%	10.81%

## Other African Markets Review

### South Africa: Rand Plummets on Allegations of support for Russia

The Rand continued the bearish run for the second consecutive week, climbing higher in the ZAR19 territory against the USD after South Africa's alleged involvement in arming Russia. The Rand ceded 5.28% to the USD at the close of trading last week and was equally bearish against the Euro and the GBP. The local unit again opened this decisive week on the interest rate front on the back foot, ceding grounds to the major trading currencies.

With inflation reversing course in Apr-2023 amidst some renewed upside pressures, investors' focus is on the MPCs meeting at midweek, especially after South Africa avoided a credit risk downgrade from Fitch last week. Another 25 - 50bps hike in the repo rate is on the horizon, particularly after the Rand plummeted to a record low following the diplomatic friction between South Africa and the United States of America. Further monetary tightening will support the Rand and help the authorities strengthen their grip on inflation.

### Nigeria: CBN to sustain monetary tightening cycle as inflationary risks linger

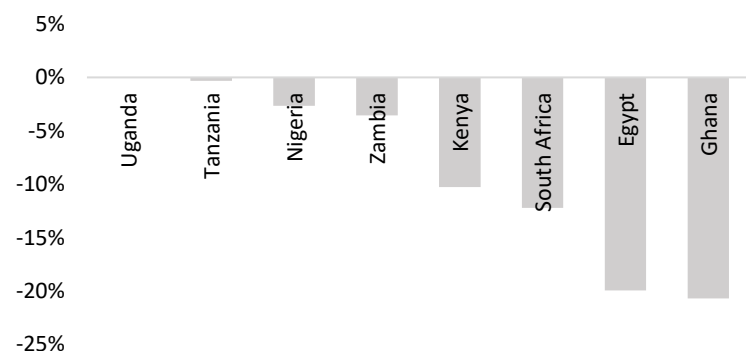
Nigeria's headline inflation increased for the fifth consecutive month in Apr-2023 to an 18-month high of 22.22% (from 22.04% in Mar-23), driven by the relentless food inflation. The dominant food inflation increased to 24.6% in April-2021 (from 24.45%), driven by local staples, which continue to sustain the inflationary run with the monetary policy response nudging the policy rate to 18%, the highest in almost two decades. An MPC decision on interest rate is due tomorrow, May 23, 2023, and we expect at least another 50bps hike in the policy rate in response to the rising inflation risks.

Ghana Economic Events Calendar for May-2023		
Event	Due date	Expectations
May-2023 CPI	10 <sup>th</sup> May 2023	Headline inflation to drop again
BDCs FX Auction	May 12, 2023	BoG expected to forward sell US\$20
May 2023 PPI	May 17, 2023	PPI to continue the decline
MPC Meeting	May 17 – 19, 2023	MPR could be held at 29.5%
MPC Press Conf.	May 22, 2023	MPR could be held at 29.5%
BDCs FX auction	30 <sup>th</sup> May 2023	BoG expected to forward sell US\$20

Performance of Selected African Currencies						
Country	US\$	Chg. (%)	€	Chg. (%)	£	Chg. (%)
Egypt	30.89	0.00%	33.37	0.43%	38.44	0.10%
Kenya	137.49	-0.45%	148.51	0.57%	170.86	0.40%
Nigeria	460.84	-0.07%	498.40	0.68%	573.47	0.53%
S. Africa	19.35	0.14%	20.87	1.31%	24.01	1.16%
Tanzania	2316.52	-0.04%	2501.61	1.26%	2880.01	1.33%
Uganda	3723.54	-0.02%	4014.72	1.26%	4623.14	0.72%
Zambia	15.42	-2.23%	20.25	-1.49%	23.32	-1.73%

Source: GCB Capital Research | The Relevant Central Banks

### SSA Currencies Performance Tracker (YTD Appreciation/Depreciation)



SSA: Snapshot of Benchmark 91-day Yields			
Country	Current week (%)	Previous Week (%)	w/w Change (%)
Nigeria	4.50%	5.50%	0.00%
South Africa	6.48%	6.56%	0.21%
Uganda	10.33%	11.10%	0.00%
Egypt	23.01%	18.33%	0.00%
Kenya	10.52%	9.37%	0.11%
Tanzania	4.00%	3.00%	0.00%
Zambia	10.00%	10.00%	0.24%

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