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Ghana Domestic Debt Exchange Program cannot lead to debt sustainability if wasteful spending does not end – *Unite and Transform Ghana*

The Government's myopic approach to economic management has diminished the confidence of Ghanaians and foreign investors in the nation's financial market. It is obvious that the Government has not learnt any lessons from the past. The country needs a proactive government that makes decisions backed by empirical evidence and extensive stakeholder consultations to ensure that the interest of Ghana is prioritized. Until the Government halts wasteful spending, the expected benefits from the debt restructuring program will still not be enough to sustainably manage the country's public debt.

Introduction

The Ministry of Finance's debt sustainability analysis has revealed that Ghana's public debt is not sustainable as the nation faces a significant financing gap.[1] As at September 2022, the debt was 467.4 billion Cedis (US$37.4 billion), of which 42% and 58% were domestic and external debts, respectively.[2] As part of the ongoing discussions with the IMF to restore macroeconomic stability and ensure debt sustainability, the Government of Ghana launched the domestic debt exchange program on 5 December 2022 to swap GHS 137.3 billion of the domestic notes and bonds[3] maturing between 2023 and 2039 with new ones maturing in 2027, 2029, 2032 and 2037.[4] Annual coupon/interest for the new bonds are set at 0% in 2023, 5% in 2024 and 10% from 2025 onwards to 2037. The Government, initially, set the expiration date for the debt exchange program on 19 December 2022 but changed it four times since the program was announced early in December 2022.[5,6,7]

Unite and Transform Ghana is of the view that the **debt exchange program is a policy malpractice. It is neither informed by a serious economic analysis nor adequate stakeholder consultation**. The Government, in a bid to have something to aid their discussions with the IMF, failed to adequately access the overall impact of the policy on the economy. Moreover, by pushing much of the accountability and responsibility of the

1 Ministry of Finance Press Release on commencement of Domestic Debt Exchange, Dec 2022 (MOF/GA/PR/22/014)

2 Reuters – accessed on 19/01/2023 (Link)

3 Ministry of Finance Press Release on commencement of Domestic Debt Exchange, Dec 2022 (MOF/GA/PR/22/014)

4 17%, 17%, 25% and 41% of the new bonds are expected to mature in 2027, 2029, 2032 and 2037 respectively

5 Ministry of Finance Press Release on extension of Domestic Debt Exchange expiration date, 24 Dec 2022 (MOF/GA/PR/DDE.EXT.22/021)

6 Reuters – accessed on 19/01/2023 (Link)

7 The Government announced the following maturity dates in the last seven weeks since announcing the initial expiry date: 19 Dec 2022; 30 Dec 2022; 16 Jan 2023; 31 Jan 2023 and 07 February 2023

exchange program beyond their political term, the Government is making the unborn generation pay for its ill-informed decisions.

Consequence of the domestic debt exchange program

The domestic debt exchange program is extinguishing public confidence in government securities and undermining the credibility of the country's financial market. All over the world, Government bonds and securities are risk-free assets. This is because they are issued by entities considered credible, with no risk of default.[8] The Government of Ghana has not demonstrated this credibility. The E-levy policy experience should have taught the Government that draconian policies could do the nation more harm to the financial sector than good. The debt exchange policy may affect the Government's ability to raise funding for developmental projects in the future.

The Ministry of Finance highlighted in their press release on 5 December 2022 that the debt exchange program will contribute to unlocking the support of the international community. **The program has rather caused fear and panic in the international community** with investors losing confidence in the Ghana financial market. According to Reuters, the holders of Ghana's US$13 billion in Eurobonds include major global asset managers such as BlackRock, Vontobel, AllianceBernstein, Neuberger Berman and PIMCO.[9] Bloomberg highlighted in its publication that Ghana, which was a magnet for foreign investment, and pitching itself as business-friendly and politically stable country is now offering a cautionary tale.[10] It cautioned that, Ghana's proposed debt restructuring could involve losses of up to 30% for foreign investors.[11] The country faces the risk of capital flight and outflows by investors which can hurt the economy further. Ghana's FDI-stock-to-GDP ratio is about 80% compared with the African continent's average of about 25%. This makes Ghana vulnerable should there be capital flight.[12]

The debt exchange program will further impact the country's credit rating status, which has repeatedly been downgraded into junk status by rating agencies since January 2022.[13] About a year ago, Ghana was locked out of the international debt markets. Now, the country risks having severely restricted access to the international financial market. The policy is expected to negatively impact the credibility and reputation of nations with experienced finance institutions on the continent, since Ghana is seen as one of the countries in African with promising financial systems.

Measures taken to address the risks of the debt exchange program may not be enough

While the measures taken by the Government, including the Financial Stability Fund[14], to mitigate the risks of the debt exchange program are commendable and may be adequate in the short term, **others such as regulatory forbearance on liquidity and solvency may affect the stability of the financial market in time of crisis**. For example, financial sector regulators are expected to temporarily reduce regulatory capital and liquidity requirements for regulated firms and schemes that voluntarily participate in the debt operation. The Regulators will also suspend or delay any new rules that will have an adverse impact on liquidity or solvency.[15] This may lead to a repeat of the financial situation/crises faced by the country in 2018 of which the Government is even yet to fully resolve.

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8 https://capital.com/risk-free-bond-definition (Accessed on 19 Jan 2023)

9 Reuters – accessed on 19/01/2023 (Link)

10 Bloomberg – accessed on 19/01/2023 (Link)

11 Bloomberg – accessed 19/01/2023 (Link)

12 ibid

13 ibid

14 The GHS15 billion Financial Stability Fund (managed by the Bank of Ghana) will provide liquidity to financial institutions that participate fully in the Debt Exchange Program for augmented liquidity support, with effect from the date of completion of the Debt Exchange

15 Bank of Ghana Financial Stability Council press release – accessed 19/01/2023 (Link)

Key accounting treatment necessary to ensure the debt exchange transaction is adequately recorded and disclosed in the financial statements of relevant financial institutions are yet to be determined, and the impact on these financial institutions are yet to be assessed. This could affect the credibility of the financial statements of financial institutions and their ability to meet their short to medium term financial obligations. Moreover, the risk categories of these government bonds may change from being risk free to risky assists due to Government's inability to fulfil their contractual obligation with bondholders. A provision for impairment may be needed for some of these bonds, which may affect the profitability of the financial institutions in the short term.

The question the Government is not answering is: what led to the bad economic indicators and over bloated debt situation? A record high inflation and the cedi, being one of the world's worst performing currency last year losing close to 60% of its value (almost double that of Ukraine) according to Bloomberg. While COVID-19 pandemic and the global economic situation resulting the Russian-Ukraine war impacted the Ghanaian economy, *Unite and Transform Ghana* is of the view that, **the Government is not addressing the root causes of the macroeconomic instability and debt unsustainability**.

Key issues such as increase in government expenditure that contributed to these debts are not being addressed. These include the increase in the number of the administrative regions in the country from 10 to 16 with its associated cost; construction of the National Cathedral; commissioning of new projects by the Government without knowing how they will be financed etc. continue to expose the country.

The Government pretends to listen but does not learn from past policy mistakes. The country has witnessed a trend of ill-prepared and mediocre policies that most often dragged the country further into a dark hole. For example, the way the debt exchange program has been designed is not different from how the nation's so-called flagship projects like the "Free Education" and the "E-Levy" that failed to meet their intended objectives were handled. The debt exchange program has not followed a careful analysis and consultation to ensure there is no repeat of what happened with the E-levy program.

Conclusion

We need a proactive government that makes decision based on empirical evidence and extensive stakeholder consultations. The ongoing negotiations and consultations the Government is having after the debt exchange announcement was announced could have been done much earlier when designing the program to prevent the anxiety. Until the Government addresses its wasteful spending, the benefits from the restructured debt will still not be enough to address the economic challenges the country is facing and will not be able to sustainably manage the country's public debt.

By

Unite and Transform Ghana
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