Fifty Eight Sovereign Debt News Update: Ghana seeks another financial bailout from the IMF, Moody's downgrades Ghana's ratings (again) and LCCI warns the Nigerian Government against taking new loans

By:

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In May 2022, the Ghanian Government maintained that it was able to manage its financial debt crises without intervention from the International Monetary Fund (IMF), as the Finance Minister expressed confidence in the Government's measures. The measures included a range of spending cuts to tackle inflation, reduce the public deficit, reestablish a depreciating local currency and reassure worried investors.

However, following previous discussions in July and September 2022, Ghana has concluded arrangements to seek another financial bailout (17th) from the IMF as the Country's economic crisis worsens. The Government is understood to seek as much as $1.5 billion US dollars from the IMF to *strengthen its finances and gain access to the global capital markets*. The bailout option comes after Moody's Investors Service downgraded Ghana's ratings to Ca in November 2022.

In justifying the Government's bailout plan, the Finance Minister argued that " *the bailout program allows for a catalytic engagement including regaining access to the capital market… and is expected to restore debt sustainability and macroeconomic stability, strengthen the central bank's monetary policy and build buffers against economic shocks*".

The Ghanaian cedi (GHS) has continued to plummet significantly in the international currency markets. As of October 2022, the cedi fell by 56% against the US dollar (USD) to become the world's worst-performing currency. Over 25% of that loss happened in October alone. The decline in the cedi has accelerated at its sharpest rate since it was re-denominated 15 years ago.

Moody's Investors Service (Moody's) has downgraded Ghana's long-term issuer ratings from Caa2 to Ca (which is Moody's second-lowest score). According to Moody's analysts Lucie Villa and Marie Diron, "*Given Ghana's high government debt burden and the debt structure, it is likely there will be substantial losses on both categories of debt for the government to meaningfully improve debt sustainability*".

Similarly, Moody's also downgraded Ghana's senior unsecured debt ratings from Caa2 to Ca, and the senior unsecured MTN program ratings were also downgraded from (P)Caa2 to (P)Ca. On the other hand, Ghana's bond slightly enhanced due to a partial guarantee from the International Development Association (IDA); the bond is currently rated- Aaa stable). This exercise has concluded Moody's current reviews for Ghana's credit downgrade.

On the conditions to be met to get an improved rating, Moody's noted that *Ghana's credit profile will likely remain very weak until after the debt has been restructured. Although improbable, an expectation of smaller losses for private sector creditors than currently implied by the Ca rating as part of the debt* *restructuring could prompt an upward revision to the rating. Further, post-restructuring, the government's progress in addressing its credit weaknesses such as more effective fiscal and monetary policy, with higher government revenue generation, would in time lower future redefault risk and support the rating*.

However, unlike Ghana's challenge to Moody's earlier downgrade, the Government is yet to challenge the most recent ratings (at the time of writing). It is worth noting that the grounds for the last challenge, including the omission of crucial material information from the assumptions which drove the forecasts and projections, were still not considered by Moody's during the latest rating exercise. This half measure by Moody's calls to question, the integrity of the rating exercise, particularly regarding African countries that find themselves in the unenviable position of swimming against the post-covid pandemic and inflation tides.

In a related development, the Ghanaian Government has asked investors to exchange around $9 billion in domestic debt for new bonds to ease a crunch in debt repayments. This request is understood to be in furtherance to ongoing IMF negotiations and an attempt to make the Country's debt more sustainable after being warned of the implications of default. The debt exchange seeks to substitute "*around 137 billion cedis or $9.7 billion in current debt* for four new bonds maturing between 2027 and 2037". Ghana's current debt servicing payments are absorbing more than half of the Government's revenues and about 70% of its tax revenues.

Ghana has struggled to stabilize its debt profile which rose to about 78% of its GDP as of March 2022, a steady climb from 62.5% about five years ago. An additional bailout may only ask more questions about the government's debt management policies and plans around debt sustainability.

In Nigeria, the Lagos Chamber of Commerce and Industry, LCCI, has urged the Federal Government of Nigeria to call off its plans to raise N10.57 trillion in loans to finance the 2023 budget deficit. The LCCI President also noted that Nigeria's debt-servicing bill and borrowings are increasing significantly while the Country is "struggling to service these debts due to revenue mobilization challenges and an increased fuel subsidy burden."

It was reported earlier that Nigeria planned to complete ongoing rail projects across the country with multi-billion-dollar loans from financial institutions based in China, Portugal, and Turkey. This debt financing plan is likely to push Nigeria’s already high external debt to a new threshold by piling on its towering debt obligations to IMF and the World Bank and may confirm IMF concern that Nigeria may have to spend 100% of its revenue on debt servicing by 2026.

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