Eighty Second Sovereign Debt News Update: Ghana Draws One Step Closer to Debt Restructuring Talks Under the G20 Common Framework

By:

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A committee constituted by Ghana's official creditors and co-chaired by France and China has been formed to grant financing assurances and to begin debt restructuring talks, the Paris Club of bilateral creditors said in a statement. These steps are particularly key for the West African nation especially after securing IMF Executive Board approval of a $ 3 billion loan on May 17, 2023. With this IMF loan, Ghana now has latitude to negotiate with its creditors for debt relief.This development comes at a time when Ghana is struggling through its worst economic crisis in a generation, defaulting on most of its external debt in December and completing a domestic debt exchange in February.

In January 2023, Ghana became the fourth country to seek treatment under the G20's Common Framework despite hesitation. Ghana is negotiating its international debt restructuring under the Common Framework platform, with $5.4 billion debt to official creditors eligible for restructuring, according to government data. The nation is also in talks to restructure $14.6 billion of debt to private overseas creditors. In the joint statement dated May 12 2023, the Creditor Committee for Ghana said it had examined the macroeconomic and financial situation of Ghana, including its long-term debt sustainability, and its formal request for a debt treatment under the Common Framework endorsed under the Saudi G20 Presidency in November 2020, which was also endorsed by the Paris Club. The formal granting of financing assurances by the country's bilateral lenders has been interpreted to mean confirmation that they will soon initiate talks to give Ghana the relief needed to make its debt sustainable. According to the statement, the creditor committee for Ghana, which constitutes countries with eligible claims on Ghana, has *committed to negotiate with the Republic of Ghana terms of a restructuring of their claims to be finalized in a Memorandum of Understanding (MoU), in accordance with the "Common Framework for Debt Treatments beyond the DSSI*".

Further, it had been noted that the assurances could possibly pave the way for the IMF Executive Board to approve the $3 billion loan under the Extended Credit Facility program. By the 17th of May 2023, the executive board of the International Monetary Fund had approved the $3 billion, three-year loan program for Ghana, allowing for an immediate pay-out of roughly $600 million, the release of further funds after the IMF has conducted reviews, and potentially providing a way out of the biggest economic crisis the West African nation has experienced in a generation. In a release statement, the IMF cited that *securing timely debt restructuring agreements with external creditors will be essential for the successful implementation of the new ECF arrangement*. The IMF has also shared that Ghana's domestic debt exchange has yielded cash debt relief for the government to the tune of 4.67 billion in 2023. In the context of the Request for an Arrangement Under the Extended Credit Facility, the IMF has released the IMF Country Report No. 23/168 which is a consolidation of a Press Release including a statement by the Chair of the Executive Board, the Staff Report prepared by for the Executive Board's consideration, a Debt Sustainability Analysis, Supplementary Information, as well a statement by the

Executive Director for Ghana.

The Ghanaian government had since July 2022 engaged the fund for a $3 billion bailout to help restore the economy. Ghana's bailout had been agreed on at the staff level in December when it defaulted on its external debts. The IMF Board's consideration of Ghana's program request had, therefore, since been pending financing assurances from Ghana's official bilateral creditors. The Ghanaian government had made efforts to have this facility fast-tracked amidst economic challenges such as inflation. In early May 2023, President Nana Addo Dankwa Akufo-Addo resorted to courting the support of Japan (a member of the Paris Club) to help Ghana secure an agreement with the International Monetary Fund (IMF) Board for the 3-billion-dollar balance of payment support.

Prior to the approval, IMF spokesperson Julie Kozack, IMF had noted the "good progress" by creditors in delivering bilateral financing assurances to Ghana that are needed for the IMF executive board to consider the three-year, $3 billion loan program. The spokesperson further said that "*the Fund is hopeful its executive board can quickly consider the Ghana program once enough official bilateral creditor assurances have been secured* ". Julie Kozack added that "it also signals that further progress is being made under the G20 Common Framework, demonstrating that international partners are ready to work together to help countries resolve their debt issues". Speaking on the recent development, the IMF Managing Director Kristalina Georgieva congratulated Ghana for a strong program of reforms to revitalize growth and reduce the country's debt burden. Georgieva further stated that the official bilateral creditors' pledge to assist Ghana in making its debt sustainable represents a significant step forward for the long-stalled G20 common framework for developing nation debt relief.

In the context of this development, there have been varied reactions within Ghana. Commenting before the loan had been approved, Asafu-Adjaye of the African Centre for Economic Transformation (ACET) think-tank highlighted that the IMF deal, when approved, *could help restore investor confidence in Ghana and slow currency fluctuations that have raised the cost of imports although it could take time before ordinary citizens feel its impact on the cost of living*. Ghana's Minister of Information, Kojo Oppong Nkrumah has argued that the IMF bailout is not the only solution to Ghana's economic challenges, and that Ghana

needs various solutions to its current economic challenges. Providing an update on the engagement with the IMF thus far, Kojo Oppong Nkrumah said "*The Government of Ghana has had an enhanced program which has been designed to help us recover from major shocks we are suffering. And to make that program effectual, we will need some balance of payments support from the IMF…and all indications suggest to us that we should be bringing that to a closure pretty soon. But that is not all the panacea to our economic challenges, we have other programs to help us to bring back growth, help private sector kicking and get cost of living under control*,"

Ghana faces a debt overhaul after its already strained finances buckled under the economic fallout from COVID-19 and Russia's invasion of Ukraine. As highlighted in the Sixty Third Sovereign Debt News Update, Ghana has always been hesitant about using the Common Framework. Ghana first reached out to the Paris Club of creditor countries in December 2022 to receive assurances that the Common Framework process could be fast-tracked given the long delays experienced by other countries that have attempted the process. This, together with the case of Zambia's protracted debt crisis, exposes the ineffectiveness of the G20 Common Framework in its current form. The African Sovereign Debt Justice Network (AfSDJN) continues to call for "a new comprehensive, fair and effective sovereign debt restructuring mechanism based in the United Nations that would be binding on all creditors, including commercial creditors, and that would make it difficult for hold-out creditors to prevent sovereign debt workouts."

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