Eighty Seventh Sovereign Debt News Update: Ghana and Zambia Continue Creditor Engagements in Preparation for Debt Restructuring

By:

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Ghana is reported to have sent a debt restructuring proposal to its official creditors as the West African country battles to escape its worst economic crisis in a generation. This development follows the initial creation of a committee constituted by Ghana's official creditors, co-chaired by France and China, to grant financing assurances and to begin debt restructuring talks. While not legally binding at present, the "working proposal" signifies a crucial first step for the country to engage the official creditor committee after its formation in May 2023, which paved way for the sign-off of the $3 billion International Monetary Fund (IMF) loan.

According to a government presentation to investors, as of the end of 2022, of the $20 billion external debt due for restructuring, Ghana owed $5.4 billion to countries including China and members of the Paris Club of creditor nations. One source revealed that Ghana intends to finish restructuring its domestic debt before turning to negotiations with its official, bilateral creditors and international bondholders. As such, in February 2023, Ghana had completed a domestic debt exchange with 65% of holders of local bonds, and is currently seeking relief on the bulk of the remainder of its domestic debt, including deals with pension funds, labour unions and independent power producers.

Against this background, Moody's Investors Service (Moody's) has upgraded Ghana's local currency long-term issuer rating from Ca to Caa3, implying that a stable outlook has been maintained. According to the credit rating agency, the upgrade comes after the near completion of the government's primary local currency debt restructuring. It is crucial to note that the upgrade not only reduces potential losses on local currency debt in the future but also lessens the prospects of seeking another debt restructuring of a comparable scale from the same creditors in the near to medium term.

These developments seem to have a positive impact on the performance of the country's currency. For instance, in the run-up to the $3 billion deal with the International Monetary Fund (IMF), the Cedi was the best performer worldwide against the dollar. Ghana's currency was poised for one of the strongest rallies globally, thereby giving hope to investors that the West African country can climb back from the previous year's debt crisis. However, one source posits that the Caa3 grade continues to reflect the existing risk of potential default, which remains a genuine concern until Ghana settles its non-restructured local currency debt and restructures its foreign currency debt. As such, Ghana's financial problems are most likely to persist despite $3 billion loan from IMF. In a televised speech, Ghanaian President Nana Akufo-Addo is reported to have noted that while the loan was expected to restore confidence, reopen avenues, and revive stalled infrastructure projects, the $3 billion IMF bailout would not instantly fix the country's economic challenges. These remarks by the President reflected those of Ghana's Minister of Information, Kojo Oppong Nkrumah, as reported in the AfSDJN's Eighty Second Sovereign Debt News Update on Ghana.

To successfully implement a $3 billion loan deal from the IMF, Ghana aims to cut $10.5 billion in interest payments on its external debt over the next three years. With the country anticipating its presidential elections in December

2024, the elections present a test for whether the government will stick to the economic reforms outlined under the approved IMF bailout package as this will be midway through the three-year program. Ghana's fiscal discipline will therefore be tested during this crucial period in the country's democratic journey. To recover from the economic crisis, Ghana is required to implement austerity measures such as reducing public spending, boosting domestic revenue through tax reforms, and seeking debt restructuring agreements with external creditors.

Due to the challenges that fraught the G20 Common Framework, Ghana has always been hesitant about seeking treatment under the Framework as highlighted in the Sixty Third Sovereign Debt News Update. However, in in January 2023, Ghana became the fourth country to seek treatment despite the delayed pace reflected in the cases of Chad, Ethiopia, and Zambia. While it is clear that Ghana has decided to restructure its domestic debt before addressing the restructuring of its foreign debt, it is imperative that the pace for foreign debt restructuring is increased as the country is struggling through its worst economic crisis in a generation. The submitted "working proposal" ought to be followed by concrete conversations on the next steps. This development provides considerable latitude for a more detailed negotiating process that will likely see a number of proposals being exchanged and discussed. At the same time, the $3 billion IMF bailout should not be allowed to overshadow discussions around the country progress under the G20's Common Framework.

What next for Zambia?

After the Ghana and IMF deals made headlines, questions have been asked again about the progress status of Zambia's debt restructuring discussions with the IMF. Zambian minister of finance has urged its official creditors to make progress on restructuring discussions in its next meeting as the southern African country struggles to complete its stretched debt management crisis, having defaulted in 2020. Zambia's success in restructuring about 12.8 billion dollars has been hampered by concerns of its principal creditors and international bondholders about the scale of relief required. It is understood that the only snag delaying a loan deal with the IMF is Zambia's inability to obtain approval from its official creditors' committee. Situmbeko Musokotwane, the Zambian finance minister, has recently appealed to the official creditors in a statement released by the Ministry of Finance, to come to some understanding in the next meeting. According to Musokotwane, *we now appeal to our Official Creditor Committee in their next meeting to make substantial progress in their deliberations... so that we may swiftly resolve our debt overhang and access our next tranche of IMF financing… delays to debt restructuring are having a significant impact on the economy and the livelihoods of our people*. Situmbeko had said in April, that his country was not at fault for the delays in the process, noting that Zambia was being "punished".

It will also be recalled that in April 2023, the IMF had indicated that the next tranche of a 188-million-dollar payout from a 1.3 billion support loan to Zambia is contingent on the government reaching an agreement with its creditors. The country's currency continuously feels the impact of the delay in debt restructuring as the kwacha has weakened 13% against the U.S. dollar to 19.46 to 1 dollar in the last six weeks, reversing a gain of 20% in the preceding weeks. Musokotwane also noted that the uncertainty created by the protracted restructuring process continues to mount pressure on the Zambian currency, making it challenging to attract much-needed foreign investment.

Be that as it may, it has been reported that Zambia's creditors are close to agreeing to the debt restructuring deal which should allow the IMF to disburse $188 million to the country. In response to the Minister's appeal, the country's official creditors met in June to discuss proposals for a "specific debt treatment". During a panel at the Bloomberg New Economy Gateway Africa forum in Marrakesh, Morocco, Abebe Aemro Selassie who is the Fund's director of the African Department, highlighted that they had *initial agreements to provide financing assurances so the IMF can proceed with providing financing with Zambia*.

In light of this context, the AfSDJN continues to urge the IMF and the World Bank to urgently commence deliberations on "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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