One Hundred and Nineteenth Sovereign Debt News Update: Ghana Reaches MOU with Official Creditors Committee and an Agreement with Eurobond Holders on $13 Billion Debt Restructuring

By:

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Memorandum of Understanding with Official Creditors Committee

On the 12th of June 2024, Ghana's Ministry of Finance announced in a press release that an agreement has been reached on a Memorandum of Understanding (MoU) with its Official Creditor Committee (OCC). The latest deal with the creditors committee, chaired by China and France, builds on an agreement in principle reached in January 2024 to revamp $5.4 billion of obligations.

According to the press release, *the financial terms of the agreement remain unchanged, and it provides significant debt service relief during the Fund-supported program period, allowing financial resources to be directed towards critical areas such as infrastructure, healthcare, and education*. The outlines of the agreement pave the way for approval by the IMF's executive board for a second review of a $3 billion loan package and release of the next tranche of $360 million. Kristalina Georgieva, Managing Director, International Monetary Fund (IMF), congratulated Ghana on reaching an agreement with the OCC, saying, "*this will support the IMF Executive Board consideration of the programme's second review later this month*." According to the statement, the IMF Board's approval should also trigger more financial assistance from development partners, including unlocking further financial aid from the World Bank.

This development come 18 months since January 2023 when Ghana became the fourth country to seek treatment under the Common Framework. As such, each creditor nation is now expected to sign the agreement individually, with the agreement expected to bolster the current and ongoing discussions with private creditors with whom Ghana remains committed to finding a comparable agreement as early as possible. This is the same "*principle of comparability of treatment*" which has played a part in delaying Zambia's debt restructuring. However, speaking on this new development, Ghana's Finance Minister, Dr, Mohammed Amin Adam said the agreement with the Official Creditor Committee *marks an extraordinary milestone in Ghana's debt restructuring journey*. While the MoU is a significant step in the government's quest to restructure its external debt, reaching an agreement with commercial creditors is equally important to complete the debt restructuring process.

Agreement with Eurobond holders on $13 billion Debt Restructuring

At the beginning of the negotiations, reports showed that Ghana's Eurobond holders needed to take more losses as the nation works to restructure debt to match payment cuts accepted by countries such as the UK and China. Ghana's bondholders must cut debt payments by 50% if they are to match the terms agreed by governmental creditors such as China and the UK. According to figures released by the Integrated Social Development Centre Ghana (ISODEC) and Debt Justice in the UK, the amount of debt relief that was being discussed would lead to bondholders being paid back 15% more than government creditors.

Ghana's bondholders, however, rejected the deal. Under the terms of the original bonds, bondholders would have received $1.26 for every dollar lent. In January 2024 Ghana's government creditors agreed to a debt relief deal. The analysis by ISODEC and Debt Justice estimated that this would see such creditors being repaid 62 cents for every dollar they lent originally. In contrast, the April 2024 proposal with bondholders, rejected by some bondholders as being too much debt relief, and the IMF as being too little, would have seen bondholders repaid 71 cents for every dollar lent. The IMF is reported to have rejected an initial pact reached between Ghana and bondholders in April after the proposed deal failed to meet the International Monetary Fund's debt sustainability analysis (DSA) requirements; failing to show that how the proposal would help cut the country's debt ratio to 55% of gross domestic product by 2028.

On Monday, June 24, Ghana's negotiations with bondholders who own $13.1 billion of debt, took a step further. The Committee of holders of Ghana's Eurobonds announced that they had reached an agreement-in-principle (AIP) with Ghana regarding the restructuring of some $13 billion debt. The key terms of the deal involve bondholders accepting a nominal 37% haircut on their investments, with the option to choose between two instruments: one offering an initial 5% interest rate and the other a 1.5% interest rate. Such a haircut is expected to result in significant savings for the government, including the cancellation of USD$4.7 billion (GH¢65 billion) from the debt stock. According to the statement released by Ghana's Ministry of Finance, additional non-financial provisions in the AIP include *loss reinstatement until 2032 upon certain events, an estoppel provision that precludes the Government of Ghana from raising legal challenges to the new bonds and liquidated damages (based upon the loss reinstatement measure) in the event of a Ghana Supreme Court ruling of invalidity of the new bonds under Ghanaian law*. The implementation of the agreement-in-principle is, however, subject to mutual agreement on deal documentation and other stated conditions.

More Loans?

The government of Ghana, led by President Nana Addo Akufo-Addo, seems to not have learnt anything from this debt restructuring exercise. On the 10th of June 2024, Ghana had reportedly secured a major financial boost of $2 billion with South Korea's Economic Development Cooperation Fund (EDCF). According to the statement by Ghana's Ministry of Finance, the deal was signed on the margins of the 2024 Korea-Africa Summit and is expected to bolster the implementation of Ghana's key priority programs spanning infrastructure, agriculture, health, education, energy, roads and transport as well as ICT over the next five years. However, this deal has not been without criticism. According to renowned US economist, Professor Steve Hanke, Ghana's ongoing dependence on international borrowings worsens the country's debt crisis and her sovereignty. Further, according to a statement issued by the Ministry of Finance on the 11th of June 2024, the government of Ghana intends to hold discussions with the Africa Export-Import Bank (Afreximbank) to secure a $1.706 billion support package. The government of Ghana should be focusing on pursuing sustainable economic reforms, instead of accumulating more unsustainable debt.

Conclusion

While Ghana has completed three major debt restructuring operations comprising of domestic debt restructuring, external bilateral debt restructuring, and commercial bondholders debt restructuring, Ghana's economy is unable to take any more uncertainty with regards to whether the terms of the MoU agreement and the $13 billion agreement in principle are official and agreed to. The Cedi, which has lost 20% of its value to the dollar this year, did not respond significantly to the news of the MoU. Ghana's sovereign dollar bonds were little changed by Wednesday morning, with most issues trading between 50-51 cents on the dollar. While the January 2024 agreement remains unchanged, it still remains to be seen whether the creditor nations will sign on. Further, an agreement with non-bond external private creditors has not been reached, yet.

As highlighted in the One Hundred and Twelfth Sovereign Debt News Update, for the success of this debt restructuring process, it is imperative to ensure the establishment of consensus among all official creditors and Eurobond holders, in a clearly defined manner that does not advance profits over people. As with the Zambian experience, Ghana's case continues to expose the ineffectiveness of the G20 Common Framework in its current form. The AfSDJN contends that both scenarios continue to prove the case 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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