One Hundred and Twenty-Seventh Sovereign Debt News Update: Restructuring, Ratings, and Reform: Ghana’s Debt Journey and Economic Outlook

By:

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Since seeking relief through the G20 common framework for debt treatment in 2023, the government of Ghana has restructured local currency debt and debt owed to bilateral official-sector creditors. On the 3rd of October, the government successfully concluded the exchange of Eurobonds. Debt restructuring, along with the debt service moratorium imposed during the negotiation period, has thus reduced the government debt burden from a peak of 93% of GDP in 2022 to an expected 81% in 2024.

Resumption of Payments

With Ghana having successfully restructured USD$13 billion in Eurobond debt, achieving a 98% participation rate from bondholders, this has paved way for the resumption of payments. Ghana's Ministry of Finance confirmed a total payment (debt service) of USD520 million, which includes a USD$120 million consent fee to bondholders who accepted the terms of the debt exchange. The payment also includes USD$320 million in coupon payments that had been frozen since the government suspended debt servicing in 2022. According to one source, regular coupon payments will resume in January 2025, with the next payment scheduled for July 2025. The resumption of debt service payments, coupled with the undertaking of fiscal risks in the run-up to the December elections, poses potential negative pressure on the currency. The reliance on expensive short-term debt also represents elevated liquidity risk, thereby constraining the rating. However, the Bank of Ghana has assured the public that it has sufficient dollar reserves to support the payments.

Credit Rating Agencies Improve Ghana's Rating

Following the completion of the Debt Exchange Program, global ratings agencies, Fitch and Moody's improved Ghana's Long-Term Local-Currency (LTLC), raising the country's credit ratings from the previous ones. On the 11th of October 2024, global credit ratings agency Moody's upgraded Ghana's long-term local and foreign currency issuer ratings to "Caa2" from "Caa3" and "Ca," respectively, citing extensive debt treatment that has significantly alleviated the government's financial burdens. The agency also revised the country's outlook to "positive" from "stable". According to a statement by Moody's, the main driver of the upgrade to Caa2 is Ghana's extensive debt treatment which is said to have provided meaningful relief to the government finances. Moody's also posits that the positive outlook reflects the potential for liquidity risk to ease amid ongoing fiscal consolidation efforts supported by an IMF programme. On the other hand, Fitch upgraded the country's Long-Term Local-Currency Issuer Default Rating (IDR) from "CCC" to "CCC+". Noting it typically did not assign outlooks to IDRs of sovereigns with a rating of 'CCC+' or below, Fitch highlighted that "*[t]he upgrade of Ghana's LTLC IDR to 'CCC+' reflects our increased confidence that the likelihood of another default on Ghana's LC debt is being reduced with the completion of the Eurobond restructuring, as this further unlocks access to concessional international finance*".

Calls for an Internal Debt Ceiling for Ghana

While the news of the completion of the Eurobond restructuring and the resumption of payments has been well received, calls for institutionalised fiscal discipline have intensified. According to Professor Pete Quartey, Director of the Institute of Statistical, Social and Economic Research (ISSER), Ghana needs a debt ceiling of 60 % of the (GDP) to prevent another round of debt restructuring. It is interesting to note that Ghana currently has no internally fixed debt ceiling and primarily operates within the Economic Community of West African States (ECOWAS), where one of the convergence criteria that must be satisfied by all member states is the attainment of debt to GDP ratio of not more than 70%. Meanwhile, Ghana's debt-to-GDP ratio was approximately 75% in early 2024, and in October 2024, the IMF forecasted it would rise to 83% by year-end, with efforts underway to reduce it to 50% by 2028 through fiscal reforms and debt exchange programs. The closest that Ghana has gone to laying out a threshold is within the framework of Ghana's existing Fiscal Responsibility Act, which currently emphasizes keeping the deficit below 5% of GDP. Reviewing the fiscal responsibility law to include an absolute debt limit, either aligned with ECOWAS' 70% debt-to-GDP criterion or ISSER's recommended 60%, would provide a legal safeguard to protect Ghana's financial future, promoting responsible borrowing practices and mitigating the risk of economic volatility.

Ghana's fiscal consolidation programs, designed to reduce debt levels and restore macroeconomic stability, have profound implications for the socio-economic welfare of its citizens and their human rights. These programs, often a condition for international financial support such as the $3 billion IMF bailout, include measures such as tax increases, subsidy reductions, and expenditure cuts. While aimed at stabilizing the economy, these reforms often disproportionately affect vulnerable populations. Ghana's fiscal consolidation efforts should be complemented by ensuring that funds freed from debt restructuring are directed toward investments in social infrastructure and sustainable development, and shifting the tax burden away from indirect taxes, which disproportionately affect the poor, toward wealth and income taxes.

Through legal reforms on debt and tax management, Ghana could achieve a more balanced, people-centred fiscal approach that not only reduces debt but

ensures economic resilience and the socioeconomic well-being of Ghanaians.

Impact on Economy vis a vis 2024 Elections

Ghana's debt restructuring is expected to reduce its debt stock by $4.7 billion and provide cash flow relief worth a total of $4.4 billion during the period of the IMF programme, which expires in 2026. Meanwhile, the December 7 elections are seen as a race largely between the country's two big parties, the incumbent New Patriotic Party (NPP) and the opposition National Democratic Congress (NDC). The presidential frontrunner for the opposition NDC, John Dramani Mahama, has said he will renegotiate the International Monetary Fund (IMF) program in an effort to reduce taxes if he wins the December elections. During an interview in Accra, Mahama told Bloomberg that "*[w]e need to look at how we can refinance some of this so that we smoothen out the trajectory of the debt repayments*". These taxes, including an increase in value added tax by 2.5% to 15%, were introduced by President Nana Akufo-Addo's administration in March 2023 in order to qualify for the USD$3 billion IMF program. This has raised the cost of goods and services, placing an additional burden on households already grappling with inflation and unemployment. Public expenditure cuts on essential services such as healthcare have diminished access to critical resources for low-income families, undermining their right to health as enshrined in the International Covenant on Economic, Social and Cultural Rights (ICESCR).

According to the IMF October 2024 Fiscal Monitor Report released during the IMF Annual Meetings in Washington DC, USA, it is projected that there will be a consistent decline in Ghana's debt to GDP ratio for the next five years, falling to 69.7% in 2029. Although this forecast appears optimistic, Ghana's immediate fiscal pressures, coupled with currency volatility and inflation, present as underlying challenges that remain concerning. In the same report, the IMF projects that Ghana's debt to GDP will balloon to 82.9% by December 2024. Thus, while Ghana's debt to GDP ratio is expected to decline steadily by 2029, at present, levels remain significantly higher than those seen before the pandemic. Undoubtedly, for the next two years, this paints a negative picture as far as Ghana's for both its economic outlook and the socioeconomic well-being of Ghanaians.

Conclusion

Ghana’s successful restructuring of its Eurobond debt marks a crucial step in reducing its debt burden and enhancing its financial stability, with support from international rating upgrades and substantial creditor participation. However, the debt crisis has since exposed structural weaknesses that highlight the urgent need for comprehensive fiscal policies. As Ghana enters an election period, fiscal pressures and promises for policy shifts, such as potential renegotiations with the IMF, illustrate the complex intersection between economic recovery, political ambitions, and the sustainability of Ghana’s fiscal reforms. Over and above, Ghana experience continues to expose the inadequacies of the Common Framework, demonstrating the need for a new comprehensive, fair, and effective sovereign debt restructuring system based in the United Nations, and that is binding on all creditors, including commercial creditors.

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