Fifty Ninth Sovereign Debt News Update: Ghana Suspends Payments on its Foreign Debt

By:

The African Sovereign Debt Justice Network

December 20, 2022

Following its recent efforts to secure an IMF bailout, on Monday December 19, 2022 Ghana suspended payments on its 13 billion dollar Eurobonds, commercial loans and other bilateral obligations as it continues discussions with creditors. Ghana's IMF deal was made contingent on reaching an agreement with its creditors. A statement by the finance ministry confirmed that the country would suspend further payments of its debts *while it fully engages all stakeholders*. The ministry described this decision as an "interim emergency measure" and added that the suspension would not include the payments towards multilateral debt, new debts taken after December 19, 2022, or debts related to certain short-term facilities.

This move comes after Ghana reached a staff-level agreement with the IMF team on a three-year program supported by an arrangement under the Extended Credit Facility (ECF) for about US$3 billion. The decision to suspend its debt servicing obligation is not unrelated to unlocking the IMF bailout. A comprehensive debt restructuring, including foreign debt, is a precondition for executive board approval of the IMF credit facility. While some investors are surprised by this development as they expected Ghana to continue servicing its debts while negotiating with its creditors, others saw this coming. Rob Drijkoningen, co-head of emerging market debt at Neuberger Berman, which holds some Ghanaian Eurobonds, noted that "this is in line with Ghana getting into talks about restructuring with various debt holders, so not coming out of the blue."

A group called the Ghana Euro Bondholders has formally launched a bondholder creditor committee to facilitate the "orderly and comprehensive resolution" of the country's debt challenges. The committee has noted the need for good faith negotiations and timely exchange of detailed economic and financial information between international bondholders, the Ghanaian government and the IMF. Although, some bondholders note that the lack of detail in the announcement and poor communication with the bondholders could be a cause for concern for investors. The finance ministry has stated that this decision was necessary *to prevent further deterioration of Ghana's fiscal situation as financial resources are limited and need to be preserved*.

Earlier this month, Ghana announced an exchange of local currency government bonds with a value of more than $11billion that will sharply reduce interest payments to its domestic creditors, mostly local banks, pension funds and insurance companies. The country has been struggling to refinance its debt since the start of the year after downgrades by multiple credit ratings agencies on concerns it would not be able to issue new Eurobonds. The debt payment struggles of not only Ghana but also other African countries have also been exacerbated by the sharp increases in global interest rates this year, along with a stronger US dollar, high rates of inflation and other disruptions caused by the pandemic and Russia's war in Ukraine. These have made it increasingly hard for many developing countries to meet both foreign and local currency debt repayments, leading many of them into taking on new debts since the start of the pandemic to finance an expansion in public spending.

The creditors, mostly bondholders, were given a deadline of December 19 to turn in their current bonds and, in their place, be issued with a new series of four bonds of considerably lower value. This deadline has now been extended to December 30. Domestic creditors currently hold more than 60 types of bonds that were, on average, meant to mature in a little over three years. These will now be replaced with four bonds with an average life of almost 11 years. They will thus have to wait for much longer to get their full investment back. On top of that, while their current bonds yielded an average interest of more than 20% a year, the new ones will yield on average less than 10% interest. That is not all, investors will have to forgo interest for the whole of 2023 and make do with only 5% in 2024, before the 10% interest rate kicks in from 2025, conveniently after the Ghanaian elections in December 2024. Taken together, analysts see losses for affected domestic investors averaging more than 60%.

Fitch Ratings recently lowered Ghana's domestic debt from CC to C after the domestic debt-exchange program started and stated its plan to cut it again to a default score of RD once the bond swap is complete. Afronomicslaw also reported that Moody's Investors Service downgraded Ghana's long-term issuer ratings to Ca from Caa2. Inflation in Ghana reached 50% in November 2022.

The sudden decision to suspend debt payments appears to have set the tone for the forthcoming restructuring discussions between the government and investors, reducing the prospect of an amicable restructuring. The bondholders have engaged the services of Orrick, Herrington & Sutcliffe LLP as legal advisors and Rothschild & Co as financial advisors to drive the restructuring discussions with the Ghanaian government.

In Novembwe 2022, Ghana hired Lazard and Global Advisory Group as financial advisers on its debt and Hogan Lovells as its legal adviser. Given how slow the China/France led debt work out with Zambia has been, Ghana's workout will likely take a while too.

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