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IS GHANA'S DOMESTIC DEBT RESTRUCTURING SIMILAR TO SRI LANKA'S?

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First Capital Research

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How Does Ghana's Economy Compare to Sri Lanka's?

Ghana and Sri Lanka are both lower-middle-income countries with a population of over 22 million people and nearly a 54% inflation rate, as of 2023. In 2022, Ghana was on par with Sri Lanka with a selective default ('SD') rating by S&P Global Ratings prior to completing the domestic debt exchange program. However, Sri Lanka's debt to GDP was 1.4x more than Ghana's in 2022.

Sri Lanka has raised its interest rates to reduce inflation, increase credit growth, and end the FX crisis. Despite having higher tax-to-GDP ratios, several countries with soft-pegged central banks, such as Ghana, Zambia, and Suriname, have defaulted after implementing similar policies.

| | Ghana | Sri Lanka |
|---------------------------|-------------------|-------------------|
| Population (Mar 2023) | <u>32.9Mn</u> | <u>22.6Mn</u> |
| Inflation rate (Jan 2023) | <u>53.6%</u> | <u>54.2%</u> |
| GDP per capita (2022) | <u>USD 2,370</u> | <u>USD 3,290</u> |
| Public Debt (2022) | <u>USD 46.1Bn</u> | <u>USD 83.6Bn</u> |
| Debt to GDP (2022) | <u>90.7%</u> | <u>128.1%</u> |
| Tax to GDP (2020) | <u>11.3%</u> | <u>7.7%</u> |
| S&P rating | <u>CCC+C</u> | <u>SD</u> |

Source: IMF, Ghana Statistical Service, Department of Census and Statistics Sri Lanka, Bank of Ghana, Ministry of Finance Sri Lanka, World Bank, S&P Global Ratings, Trading Economics

Are Ghana's and Sri Lanka's Debt Restructuring Approaches Similar?

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- No, Ghana and Sri Lanka have very different approaches when it comes to their debt restructuring efforts although their economies are similar. Ghana's approach was to immediately restructure domestic debt despite having 58% external debt exposure while Sri Lanka has first obtained the IMF board level approval and is progressing towards the external debt restructuring process subsequent to the debt sustainability analysis.
- In [April](#) 2022, Sri Lanka defaulted on its debts for the first time as a result of the forex crisis triggered by high level of debt, global disruptions from the pandemic and the Russian-Ukraine war. Sri Lanka's foreign reserves fell to USD 1.9Bn by March 2022 while its [usable](#) foreign reserves fell to less than USD 50.0Mn. Therefore, the country decided to suspend foreign debt payments and considered restructuring debt of more than USD 35.0Bn it owed to foreign creditors.
- According to the CBSL Governor, Sri Lanka [decided](#) to focus on restructuring external debt, while remaining open to the possibility of restructuring domestic debt based on the debt sustainability analysis.
- Even though Ghana had a similar debt restructuring approach like Sri Lanka it initially avoided IMF's support and subsequently approached the IMF towards mid-2022. Amidst high levels of debt similar to Sri Lanka, Ghana started to discuss about domestic debt restructuring even before approaching the IMF. Ghana carried out its own debt sustainability analysis and decided on certain debt targets and went on to achieve it. Later Ghana negotiated a staff level agreement with IMF but decision for domestic debt restructuring remained with the Government. By February 2023, Ghana completed the domestic debt restructuring which resulted in a rating upgrade as well.

How Might Ghana's IMF Bailout Impact Sri Lanka?

- Since Ghana has concluded its DDEP, there is a possibility that Ghana's approach may influence Sri Lanka as well. At FC Research, we believe that the probability of domestic debt restructuring is limited to 20%.
- External creditors may argue that if Ghana can implement a debt restructuring program, then why can't Sri Lanka do the same? However, Ghana is at the initial phase towards securing the IMF bailout, whereas Sri Lanka has already received the IMF approval.
- ISB holders have also indicated that they anticipate some form of "reorganization" of domestic debt, however, no discussions or negotiations regarding the restructuring of the domestic debt have taken place yet. Also, Sri Lanka's private creditors are seeking a re-profiling of the domestic debt to ensure that the government meets its gross financing targets. There are rising concerns that Sri Lanka's gross financing need (GFN) target cannot be met without domestic restructuring, considering the high volume of domestic debt and current interest rates.
- The government authorities have also stated that domestic debt re-structuring will affect commercial banks which have already suffered mark-to-market losses. Due to concerns about domestic debt restructuring and high-risk perceptions, cash plus banks have been depositing their excess funds in the central bank's window rather than investing in government bonds. This is in contrast to past economic crises in Sri Lanka where banks have typically invested in government bonds as private credit declined and made capital gains as interest rates fell about a year into the IMF program.



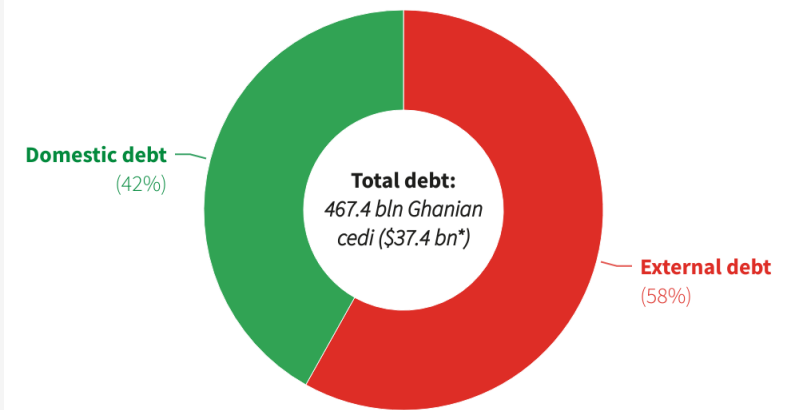
Why Did Ghana Prioritize Domestic Debt Restructuring Over External Debt Restructuring?

Ghana's external debt accounts for the majority of its total debt, with the domestic debt constituting a relatively smaller portion. There is no clear indication as to what prompted Ghana to consider domestic debt restructuring over external debt restructuring. The IMF demonstrated that Ghana's public debt was unsustainable through a [debt sustainability analysis](#), so [conditioned](#) the bailout package to a domestic debt [restructuring](#) arrangement in December 2022.

Hence, Ghana decided to negotiate with local bondholders to restructure its local currency debt and restore overall debt and fiscal sustainability ahead of IMF support. The authorities targeted an 80% subscription rate for a successful domestic debt restructuring.

It also prepared contingency plans by establishing a GHS 15.0Bn (USD 1.20Bn) financial stability [fund](#) to provide liquidity to financial institutions that fully participate in the debt exchange program.

Ghana's debt breakdown



Source: Central bank of Ghana

Ghana's Domestic Debt Restructuring Timeline – 2H2022

JULY 2022

13th Requested IMF assistance

DECEMBER 2022

05th Launched the ***Domestic Debt Exchange Program (DDEP)***. Invited eligible holders to voluntarily exchange approximately GHS 137.3Bn (USD 11.3Bn) of principal amount outstanding of certain of its domestic notes and bonds. Agreed to exempt pension funds from domestic debt restructuring after labour unions threatened a general strike.

13th Announced a Staff Level Agreement (SLA) on a USD 3.0Bn, 3 years Extended Credit Facility with the IMF to restore Ghana's macroeconomic stability and debt sustainability. The SLA was subject to IMF Management and Executive Board approval and receipt of the necessary financing assurances by Ghana's partners and creditors.

17th Extended the expiration date for DDEP from 19th December to 30th December 2022 since they required sufficient time to consider suggestions made by all stakeholders and adjust certain measures acceptable within the constraints of the Debt Sustainability Analysis. The financial sector required time to secure internal and executive board approvals (through emergency board meetings, etc.) which were necessary for their participation in the exchange.

19th Announced a suspension of all debt service payments under certain categories of external debt including the payments on Eurobonds, commercial term loans, and bilateral debts.

28th Announced further extension of expiration for the DDEP to 16th January 2023. Announced modifications (i.e., added eight new instruments to the composition of the New Bonds) to the Invitation to Exchange which was included in the Amended and Restated Exchange Memorandum that was expected to be published during the final week of December 2022.

Ghana's Domestic Debt Restructuring Timeline – Jan/Feb 2023

JANUARY 2023

16th Announced further extension of expiration for the DDEP to 31st January 2023 since they wanted to further engage with stakeholders, primarily individual bondholders to mitigate any adversarial impacts.

31st Announced further extension of expiration for the DDEP to 07th February 2023.

FEBRUARY 2023

07th Announced further extension of expiration for the DDEP to 10th February 2023 as they extended the window for some bondholders who faced technical glitches to complete the online tender process.

10th Ghana's DDEP closed with over 80% participation of eligible bonds.

14th Extended the settlement date to 21st February 2023 to provide time to settle the new bonds. Announced that 84.91% of GHS 97.7Bn of eligible domestic bonds were tendered and accepted.

21st Announced the successful settlement of the DDEP.

24th S&P Global Ratings raised Ghana's local currency sovereign credit ratings from SD to CCC+/C, which acknowledges the completion of the DDEP.

Uncovering the Present State of Ghana: A Comprehensive Look at the Country's Current Status

- Ghana has completed its domestic debt exchange program, which takes it one step closer to securing the USD 3.0Bn IMF bailout. New bonds were issued to eligible holders whose tenders were accepted by the Government. The Ministry also implemented administrative measures to ensure that payments of interest and principal on the old bonds recommenced, to fulfill the assurance given by the Government to bondholders who did not submit their tender. The nation is already in discussions with its two notable creditors, China and India, to expedite the country's external debt restructuring program following the successful completion of its DDEP.
- However, Ghana missed the self-imposed deadline where it expected to reach a restructuring agreement with bilateral creditors by the end of February 2023 to help qualify for the IMF program. Since China is Ghana's largest bilateral creditor, both nations had a meeting during March 2023 to aid Ghana's external debt restructuring through reliefs, lower interest rates, and moratorium extensions on debt servicing and maturities, which is a precursor to a bailout from the IMF.
- Ghana's President expects to conclude the IMF deal in March 2023.



Initial Proposal (Dec-2022)

- Debt to GDP = 93.5%

| Creditor | Maturity Extension | Reduction on Coupon | Haircut on Principal |
|----------------------|---|---|----------------------|
| Domestic bondholders | Will be exchanged for a set of four new bonds maturing in 2027, 2029, 2032 and 2037 | 0% in 2023, 5% in 2024 and 10% from 2025 until maturity | N/A |

Source: MOF Ghana

Final proposal (Feb-2023)

- Debt to GDP = 93.5%

plan to reduce
to 55% by 2028



- Debt to GDP = 55.0%

| Creditor | Maturity Extension | Reduction on Coupon | Haircut on Principal |
|--|--|---|----------------------|
| Domestic bondholders holding bonds maturing in 2023 | Will be exchanged for a set of 7 new bonds maturing in 2027, 2028, 2029, 2030, 2031, 2032, and 2033 | 5% coupon for 2023 maturing bonds | N/A |
| Domestic bondholders holding bonds maturing after 2023 | Will be exchanged for a set of 12 new bonds maturing in 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, and 2038 | Single coupon rate for each of the 12 new bonds resulting in an effective coupon rate of 9% | N/A |

Source: MOF Ghana

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