

# Flash Comment: Ghana DDE Update, USD Local Bonds and Cocoa Bills Added.

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## Background

Fiscal constraints and deteriorating macroeconomic fundamentals led the Ghanaian Government to seek support from the International Monetary Fund (IMF) in July 2022. Investor confidence had waned, and successfully tapping the international capital market, a critical source of foreign currency funding, proved unachievable given debt sustainability concerns and macroeconomic fundamentals.

Debt sustainability analysis in 2022 placed Ghana within the high-risk category. Ghana formally announced its debt restructuring programme at the start of December 2022 as a prerequisite to access IMF funding, required of any country whose debt is deemed unsustainable.

The first phase of the Domestic Debt Exchange Programme was concluded in February 2023 following months of tough negotiations and conversations between the government and bondholders. Some GHS 126.1 billion worth of outstanding domestic GOG bonds comprising fragmented holdings of bonds maturing each year from 2023 to 2034 and in 2039, were deemed eligible on a 1-for-1 basis under the programme. GHS 8.4 billion and GHS 2.8 billion in ESLA (Energy Sector SPV) and Daakye (Education Funds SPV) bonds respectively, were also deemed eligible.

The Government restructured approximately GHS 83.0 billion in domestic debt principal from its originally proposed total and expects this to yield debt service savings of GHS 34 billion in 2023.

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The Government's overall goal is to treat a total domestic debt stock of GHS 123 billion. Besides the domestic bonds restructured, negotiations have been ongoing related to pension fund holdings (GHS 29.2 billion), Cocoa Bills (GHS 8.1 billion), USD local bonds (\$0.8 billion), local currency loans (GHS 0.7 billion) and BOG non-marketable debt including overdrafts (GHS 77.6 billion).

In addition, the Government suspended payments on selected external borrowings (Eurobonds, commercial term loans and bilateral debt, contracted before 19 December 2022) whilst it engages external investors on restructuring.

In a virtual address delivered on the 13th of April 2023 by the Ministry of Finance, the Bank of Ghana, and financial advisors to Ghana -Lazard and Hogan Lovells, the parties disclosed the exclusion of multilateral development institutions and non-resident holders of local debt from the restructuring perimeter.

Official creditors, made up of bilateral and ECA-backed commercial creditors are however included in the perimeter, a debt stock total of about \$5.4 billion. This is in addition to obligations to other commercial creditors/bondholders (including holders of a 2030 World Bank partially guaranteed bond) and non-insured commercial banks, with a total debt stock consideration of \$14.6 billion. Negotiations remain ongoing with external creditor groups. The Government placed a June-July timeline on achieving an agreement in principle on a term sheet for the restructuring of Eurobonds.

Table 1: Timeline of Debt Exchange Programme and IMF Engagements

5 <sup>th</sup> Dec 2022	Domestic Debt Exchange Programme (DDEP) formally launched with Government seeking to exchange eligible bonds totalling GHS 137 billion for 4 new bonds maturing between 2027 and 2037, with an offer deadline of 19 <sup>th</sup> December 2022
7 <sup>th</sup> Dec 2022	Institute of Chartered Accountant Ghana (ICAG) issues accounting implications of the DDE programme on Banks Ghana Securities Industry Association (GSIA) rejects bond exchange programme via press release
8 <sup>th</sup> Dec 2022	Bank of Ghana issues note on regulatory reliefs and reporting guidelines for monitoring liquidity
9 <sup>th</sup> Dec 2022	Securities and Exchange Commission issues circular on regulatory support to mitigate the impact of the programme
13 <sup>th</sup> Dec 2022	Announcement of IMF Staff-Level Agreement
16 <sup>th</sup> Dec 2022	First extension of the expiration date of the DDEP offer from 19 <sup>th</sup> December 2022 to 30 <sup>th</sup> December 2022
19 <sup>th</sup> Dec 2022	Ministry of Finance announces suspension of payments on selected external debts of Government of Ghana.  Eurobond holders form a representative committee steered by key institutional investors with Rothschild & Co serving as financial advisor.
22 <sup>nd</sup> Dec 2022	Pension funds exempted from DDEP programme following discussions with the Ministry of Finance and execution of a Memorandum of Understanding
24 <sup>th</sup> Dec 2022	Announcement of inclusion of individual bondholders to the programme  Second extension of the expiration date of the revised DDEP offer from 30 <sup>th</sup> December 2022 to 16 <sup>th</sup> January 2023
11 <sup>th</sup> Jan 2023	Individual Bondholders Forum formal advocacy begins with calls for membership
16 Jan 2023	Third extension of the expiration date of the revised DDEP offer from 16 <sup>th</sup> January 2023 to 30 <sup>th</sup> January 2023  Ghana Association of Banks reject amended debt exchange offer  Institute of Chartered Accountant Ghana issues further accounting implications and impairment assessment comments relating to the revised DDEP programme, in response to Bank of Ghana's comments on the first ICAG report
18 Jan 2023	Ministry of Finance meets with representatives of the Individual Bondholders Forum and others and a committee is inaugurated to support efforts to arrive at a palatable solution to the debt challenge
23 <sup>rd</sup> Jan 2023	Ministry of Finance and Ghana Association of Banks release a joint press statement on changes agreed on to improve the terms of the DDEP. These changes are <b>-Coupon of 5% to be paid for 2023 and a single coupon rate for each of the 12 new bonds at 9%,</b> <b>-Clarity on terms of access of the stability fund</b> <b>-Removal of clauses that empower the Republic to vary terms of the exchange unilaterally.</b>
26 <sup>th</sup> Jan 2023	Ministry of Finance and Ghana Insurers Association release a joint press statement on their agreement with respect to the programme. <b>It was agreed that insurance companies will participate will similar terms that banks agreed to on 23<sup>rd</sup> Jan 2023.</b>
27 <sup>th</sup> Jan 2023	Ministry of Finance and Ghana Securities Industry Association (GSIA) release a joint press statement announcing that an understanding has been reached in terms of participation of capital market operators in the programme. <b>It was agreed that the terms agreed to with banks will be extended to all capital market operators. In addition, Collective Investment Schemes (CIS) who hold bonds in Trust accounts with Securities &amp; Exchange Commission (SEC) approved firms will be offered any enhanced commercial terms agreed with or exemptions granted to Individual bondholders.</b>
31 <sup>st</sup> Jan 2023	Fourth extension of the expiration date of the revised DDEP offer from 30 <sup>th</sup> January 2023 to 7 <sup>th</sup> February 2023
7 <sup>th</sup> Feb 2023	Administration window given by the Ministry of Finance for eligible bondholders to complete participation documentation by the 10 <sup>th</sup> of February 2023 (the closing date)
14 <sup>th</sup> Feb 2023	Government announced results of domestic debt exchange programme and pegged participation rate at approximately 85%
21 <sup>st</sup> Feb 2023	Domestic Debt Exchange Programme settled and concluded with a new principal amount of GHS 87.8 billion <b>Rating Action:</b> Fitch Downgraded Ghana's Long Term Issuer Rating to RD from C following expiration of the 30-day grace period on non-payment of Eurobond obligation.

13 <sup>th</sup> Mar 2023	Government to resume coupon and principal payments on old bonds. Coupon payments were made on 23 <sup>rd</sup> March 2023.
7 <sup>th</sup> Apr 2023	Government proposed an alternative offer for pension funds that fully compensated for the value of current holdings with an average coupon of 8.4%, exchange ratio of 1.15x and an additional cash payment of 10%. The Government hopes to settle this offer by the end of April 2023
13 <sup>th</sup> Apr 2023	Ministry of Finance holds joint virtual presentation alongside Bank of Ghana, and financial advisors to the Government of Ghana -Lazard and Hogan Lovells. The parties highlighted progress so far with DDEP and projected an April-end/May timeline for external debt restructuring and IMF process completion.
16 <sup>th</sup> May 2023	Memorandum of Understanding executed between the Government of Ghana and the Coalition of Individual Bondholders Groups (Individual Bondholders' Forum (IBF) and the Individual Bondholders' Association of Ghana where the Government committed to paying all arrears on coupons of bonds maturing by 31 <sup>st</sup> May 2023 and coupons falling due from 1 <sup>st</sup> June 2023
17 <sup>th</sup> May 2023	Ghana gets Board approval for \$3 billion bailout from the IMF. \$600 million to be disbursed immediately with subsequent tranches hinged on milestones made on the conditions set.
11 <sup>th</sup> July 2023	Ministry of Finance announces settlement of outstanding coupons and principal payments up until 19 <sup>th</sup> June 2023 with payment instructions sent for coupons outstanding between then and 10 <sup>th</sup> July 2023.
14 <sup>th</sup> July 2023	Exchange Memorandum and Invitation to Exchange issued by the Ministry of Finance for 4 USD-denominated local bonds with total outstanding principal of approximately USD 809 million due to mature in 2023 and 2026, with an offer expiration date of 4 <sup>th</sup> August 2023. Eligible bondholders include individuals.  Exchange Memorandum and Invitation to Exchange issued by the Ghana Cocoa Board (Cocobod) for the exchange of 9 Cocoa Bills with total outstanding principal of approximately GHS 6.9 billion due in 2023, with an offer expiration date of 4 <sup>th</sup> August 2023. Eligible bondholders include local individuals.

Source: Sarpong Capital Research and Regulator and Association publications

Details of the exchange offer for the USD-denominated local bonds are as follows

**Table 2: USD-denominated Local Bonds Exchange Terms**

Old Maturities	Exchange Ratio	New Maturities	New Category A Financial Terms
13 November 2023 X 2 13 November 2026 X 2	50%	August 2027	<ul style="list-style-type: none"> <li>One single principal repayment on maturity date</li> <li>Interest payments made semi-annually, in arrears, commencing in February 2024.</li> <li>2.75% annual interest rate applied from and including the settlement date to but excluding the maturity date</li> <li>Accrued interest payable on eligible bonds validly tendered and accepted, calculated from and including the last interest payment date up to, but excluding, the settlement date will be paid to eligible holders in the form of capitalised interest (rounded down to the nearest U.S.\$1.00) by adding to the principal amount of the new bonds.</li> </ul>
	50%	August 2028	<ul style="list-style-type: none"> <li>One single principal repayment on maturity date</li> <li>Interest payments made semi-annually, in arrears, commencing in February 2024.</li> <li>3.25% annual interest rate applied from and including the settlement date to but excluding the maturity date</li> <li>Accrued interest payable on eligible bonds validly tendered and accepted, calculated from and including the last interest payment date up to, but excluding, the settlement date will be paid to eligible holders in the form of capitalised interest (rounded down to the nearest U.S.\$1.00) by adding to the principal amount of the new bonds.</li> </ul>

Source: Ministry of Finance

Details of the exchange offer for the Cocoa Bills are as follows

**Table 3: Cocoa Bills Exchange Terms**

Old Maturities	Exchange Ratio	New Maturities	New Category A Financial Terms
06 July 2023	5%	August 2024	<ul style="list-style-type: none"> <li>One single principal repayment on maturity date</li> <li>Interest payments made semi-annually, in arrears, commencing in February 2024.</li> <li>13.0% annual interest rate applied from and including the settlement date to but excluding the maturity date</li> <li>Accrued interest payable on eligible bonds validly tendered and accepted, calculated from and including the last interest payment date up to, but excluding, the settlement date will be paid to eligible holders in the form of capitalised interest (rounded down to the nearest GHS1.00) by adding to the principal amount of the new bonds.</li> </ul>
20 July 2023			
04 August 2023			
08 August 2023			
12 September 2023			
10 October 2023			
10 November 2023			
14 November 2023			
23 November 2023			
	20%	August 2025	
	25%	August 2026	
	25%	August 2027	
	25%	August 2028	

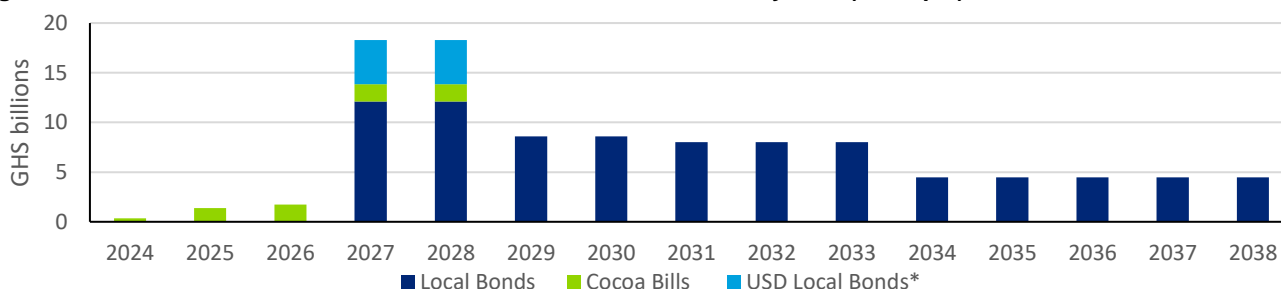
Source: Ghana Cocoa Board

Considering the implementation of the Domestic Debt Exchange Programme and the issuance of new local bonds, it is expected that any forthcoming government debt will be issued under this program. Furthermore, with Cocobod's debt program announcement, we anticipate other state-owned enterprises (SOEs) will adopt similar bond issuance structures. While this may demonstrate progressive efforts to tap into the debt market, especially for development, it also highlights the need for careful monitoring of SOEs to ensure sustainable borrowing practices.

The reliance on bond market financing continues to raise red flags about the Government's overall debt profile and long-term consequences. Of particular concern are the potential refinancing risks associated with the 2027 and 2028 maturities, given the current allocations. With significant principal payments totaling at least GHS 27.6 billion and USD 809 million falling due during this period, alongside other outstanding obligations and the expiration of the IMF extended credit arrangement in 2026, there is a pressing need for prudent financial planning.

Addressing these concerns requires urgent, proactive, and innovative measures to mitigate risks and ensure a sustainable debt profile. By adopting effective strategies and closely monitoring financial obligations, Ghana can navigate these challenges and pave the way for a more secure and resilient economic future.

**Figure 1: New Local Bonds, Cocoa Bills and USD Local Bonds Maturity Wall (Principal)**



Sources: Central Securities Depository (CSD), Ghana Fixed Income Market (GFIM), Exchange Memorandums of New Bonds

\*USD-denominated local bonds represented in Cedi terms using the current exchange rate of GHS/USD 11.00 as at 17 July 2023

## Disclosures Appendix

### Regulatory Disclosure:

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