REPUBLIC OF GHANA

MINISTRY OF FINANCE

STATEMENT

BY

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MINISTER FOR FINANCE

THE LAUNCH OF GHANA'S DOMESTIC DEBT EXCHANGE PROGRAMME

5th December, 2022

Good morning ladies and Gentlemen,

As I announced in the evening of yesterday, Sunday, 4th December, 2022, we are gathered here today to invite holders of domestic debt to voluntarily exchange approximately GHS137 billion of the domestic notes and bonds of the Republic, including E.S.L.A. and Daakye bonds, for a package of New Bonds to be issued by the Republic.

The Debt Sustainability Analysis (DSA) demonstrated unequivocally that Ghana's public debt is unsustainable, and that the Government may not be able to fully service its debt down the road if no action is taken. Indeed, debt servicing is now absorbing more than half of total government revenues and almost 70% of tax revenues, while our total public debt stock, including that of State-Owned Enterprises and all, exceeds 100% of our GDP. This is why we are today announcing the debt exchange which will help in restoring our capacity to service debt.

This is the path towards resetting the economy to a more stable one capable of addressing the development challenges of the country.

The reasons are quite clear. Covid-19 pandemic, rising global food prices, rising crude oil & energy prices; and the Russia-Ukraine war adversely affected Ghana's macroeconomy, with spillovers to the financial sector. The combination of adverse external shocks have exposed Ghana to a surge in inflation, a large exchange rate depreciation and stress on the financing of the budget, which taken together have put our public debt on an unsustainable path.

To address the ongoing economic crisis, the Government has requested financial support from the International Monetary Fund.

We expect to reach a Staff-Level Agreement soon on an IMF programme aimed at restoring macroeconomic stability and protecting the most vulnerable. To this end, as a Government, we are determined to implement wide-ranging structural and fiscal reforms to restore fiscal and debt sustainability and support growth.

Consistent with all of the above, I announced during the Budget Statement presented to Parliament on November 24th, that Government will undertake a debt operation programme. We presented to you the contours of the Domestic Debt Exchange programme yesterday. As you are aware we established a consultative committee to work with the financial sector and incorporated their advice in our decisions.

Today, we are here to officially launch Ghana's Domestic Debt Exchange programme.

The objective of this programme is to alleviate the debt burden in a most transparent, efficient, and expedited manner. In this context, by means of an Exchange offer, The Government of Ghana has been working hard to minimize the impact of the domestic debt exchange on investors holding government bonds.

In particular, it does not embed any principal haircut on Eligible Bonds, as we promised. Let me repeat this fact as plainly as I can, in this debt exchange individual holders of domestic bonds are not affected and will not lose the face value of their investments. So let us remove any doubt and discard any speculation that the Government is about to cut your retirement savings or the notional value of your investments. That is not the case.

As already announced, Treasury Bills are completely exempted, and all holders will be paid the full value of their investments on maturity. There will be NO haircut on the principal of bonds. Individuals who hold bonds will also not be affected at all.

Our domestic debt operation involves an exchange for new Ghana bonds with a coupon that steps up to 10% as soon as 2025 (with a first interest payment in 2024) and longer average maturity. Existing domestic bonds as of 1st December 2022 will be exchanged for a set of four new bonds maturing in 2027, 2029, 2032 and 2037. Predetermined allocation ratio are as follows: 17% for the short bonds, 17% for the intermediate bond, 25% for the medium-term bond and 41% for the long-term bond. The annual coupon on all of these new bonds will be set at 0% in 2023, 5% in 2024 and 10% from 2025 until maturity. Coupon payments will be semi-annual. For emphasis, this domestic debt exchange programme will not affect individual bondholders.

This domestic debt exchange is part of a more comprehensive agenda to restore debt and financial sustainability. We are also working towards a restructuring of our external indebtedness, which we will announce in due course.

This is a key requirement to allow Ghana's economy to recover as fast as possible from this crisis. This is also a key requirement to secure an IMF support.

We are confident that with the measures we are putting in place, including those outlined in the 2023 Budget Statement and underpinned by a successful IMF programme, Ghana will witness a stable and thriving economy from 2023. We, accordingly, anticipate that inflation will be returned to single digit, ensuring that real returns on these new bonds will be protected.

As His Excellency the President declared in his *Address to the Nation* on 30th October 2022, "to restore and sustain debt sustainability, we plan to reduce our total public debt to GDP ratio to some fifty-five percent (55%) in present value terms by 2028".

This can only be achieved through the active participation of all key economic actors. In that perspective, we call upon all domestic debt holders to take their share in ensuring that public debt sustainability is quickly restored by participating in this exchange programme.

Our pledge to you all is that Government will take all appropriate measures to safeguard the solvency of the financial institutions involved in the exchange. Thanks to well-targeted regulatory measures and the creation of a Financial Stability Fund (FSF), banks, pension funds, insurance companies, fund managers, and collective investment schemes will be supported, to ensure that they are able to meet their obligations to their clients as they fall due.

For this reason, the Governor of the Bank of Ghana will follow suit with details of the necessary assistance in due course.

We have also dialogued extensively with regulators across the Financial Sector including *Securities and Exchange Commission (SEC), National Insurance Commission (NIC) and National Pensions Regulatory Authority (NPRA)* to agree that regulatory forbearance will be provided to all entities whose financial position is adversely affected by virtue of participating in this exchange.

This debt exchange provides an orderly way to put our economy back on track. These efforts will be complemented by fiscal measures to protect the neediest and most vulnerable in society.

The Government expects overwhelming support to this exchange. And in truth, the success of this necessary endeavour depends, of course, upon the public's cooperation. That will also mean the media being helpful in disseminating the right information to economic actors. We are all in this together and we intend to get out of this together.

The alternative would be a far worse economic crisis, with protracted closure from international markets (including imported goods and services) and further domestic economic instability both for the real economy and the financial sector. It would also mean depleted fiscal resources to support the neediest.

Ghana is not the first nation to undertake such Domestic Debt operation. To illustrate the point, let me cite the examples of just two countries among many others in the last 10 years.

Jamaica resorted to such operations in the past, notably in 2010 and 2013. In both cases, it chose to trust the sense of responsibility of the Jamaican people and proceeded through a voluntary approach. This approach was highly successful, as more than 99% of holders of domestic bonds participated in the exchange.

On the contrary, in the case of Greece, the Authorities chose to undertake a coercive approach, whereby a law was passed to force people into participating. We intend to avoid as much as possible the Greek approach, as we strive to reach a consensual solution with our bondholders, which the is Ghanaian way.

In any case, the good news is that the Domestic Debt Exchange has yielded positive results both in Greece and Jamaica, and many others, and will certainly put our economy on a much stronger footing. Greece has now recovered full market access. We certainly anticipate a similar success story in Ghana. I want to assure you about the Government's commitment to do what is necessary to succeed.

Ladies and Gentlemen.

Today's announcement is a major policy step that the Government is taking over this short period to restore macro-economic stability, achieve debt sustainability and get the economy fully back on track in order to create and protect jobs, provide and enhance incomes, foster strong and inclusive growth led by exports, and restore hope to the people of Ghana.

In all humility, I wish to remind each and everyone of us that Ghana is the only "home" we have. Its progress and prosperity are our collective duty. We have overcome many challenges and risen to the occasion many times before. We are a resilient society.

Thankfully, today our development is in a far more advanced stage than before when other challenges confronted us. We have made big progress over the years and the progress before us is even greater. This is another challenge which we must surely overcome. And overcome we must, for our sake and for the sake of our children.

Together, we can beat this. Our ultimate goal, when all is done, is to put our nation into a sustainable development path – one of fiscal responsibility, economic stability and growth that will truly translate into improving the lives of the people and all of the nation's economic actors, including investors.

Your support can help us realise this ambition. I say this because I know that together we shall triumph. As in the days of Nehemiah, let us rise up, family by family, and rebuild together! Let us make our "**Nkabom**" budget a reality.

Thank you, and May God Bless Our Homeland Ghana.