Seventy Eight Sovereign Debt News Update: Updates on Ghana and Nigeria's Sovereign Debt Status In April 2023

By:

The African Sovereign Debt Justice Network

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Ghana is optimistic about getting its $58bn debt restructuring deal across the line sooner than later, as its bilateral creditors met on Tuesday, April 18, 2023, to discuss the likelihood of providing enough relief necessary to unlock the negotiated $3bn IMF bailout. Ghana's indebtedness to foreign governments and domestic banks presently stands at over $5.5bn, and the delay in negotiations has stood in the way of Ghana getting the final nod from the IMF to get access to a loan package which was agreed to in December 2022 after a staff-level agreement with the IMF was secured.

President Nana Akufo-Addo's government expects its bilateral lenders- China and the Paris Club members- to provide financial assurances sometime in May 2023, setting the stage for the IMF approval of the loan in the second quarter of

2023. The IMF support depends on Ghana meeting several conditions, including measures to raise revenues through a rise in value-added tax, tariff increases on public utilities and a halt on central bank financing of the government.

Speaking on the country's dire financial crises, Ofori-Atta noted in a briefing that Ghana needs another $1.5bn in financial stability funding to ensure appropriate solvency and liquidity. The World Bank has already committed $250 million, and the Ghanaian government is putting forward $500 million dollars. This relative progress comes at the heels of international impatience over the slow pace at which creditors handled the restructuring agreement discussions. It will be recalled that while the G20 group of economies adopted the Common Framework for debt treatment in 2020, only Chad has successfully reached a deal with creditors under the initiative with Zambia, Ethiopia and recently, Ghana, still pending finalization.

The head of the IMF's Africa department has provided some encouraging news for Ghana. While speaking to journalists at the sidelines of the Springs meetings, he confirmed that "[W]e are now comfortable that all the measures required for us to present the program to our Executive Board are complete, except for the required financing assurances from Ghana's external creditors." The IMF had previously urged Ghana's creditors to hasten to grant financing assurances needed promptly so that the Bretton Woods Institution Board could approve the three-billion-dollar extended credit facility, which had been approved in December 2022.

Abebe Selassie has also lent his voice to the call for a significant increase in international support to help countries overcome a funding squeeze jeopardizing the continent's economic development. He noted that "the reform of the current mechanisms for dealing with unsustainable debts of African countries was desperately needed. "Do we have the authorizing environment right now, a Gleneagles-like moment? We don't, but it is that kind of moment that is needed," he said, referring to the G8 summit in Scotland in 2005 that led to the cancellation of $130bn of debt for dozens of poor countries. Selassie did not call for an outright cancellation of current repayments. Instead, he said that what is needed is "a much more efficient sovereign debt framework". "We need to be sure that resources are going to support countries rather than being used to service unsustainable debts."

The slow progress recorded by African countries seeking debt restructuring has come up for discussions in recent times as Zambia and Ghana have struggled to move to the next stage of debt restructuring with the IMF due to uncooperative creditors, and this is coming at a cost to their respective economies. Zambia defaulted on its external debts in 2020 and is still struggling to reach a restructuring agreement with its creditors. Last December, Ghana defaulted on its foreign debts and restructured its domestic debts. According to Selassie, "Several other African countries such as Egypt and Tunisia are at risk of default. Many have been shut out of international debt markets since 2020 by "exorbitant" borrowing costs, while finance from China and other new sources of lending had been curtailed, along with development assistance from rich countries." It will be recalled that Ghana halted payments on most of its external debts in December 2023 and called on holders of about $11bn of its domestic debt to participate in an exchange to reduce the cost of debt service significantly. Holders of about 85 percent of the eligible domestic debt had agreed to take part, according to Ofori-Atta.

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The IMF has stressed that the future of Nigeria's debt sustainability significantly hangs on the reforms and policies of the incoming administration. This insight was shared by the IMF Director, African Department, Abebe Aemro Selassie, during a media briefing to unveil the regional economic outlook for Sub-Saharan Africa (SSA) titled: *The Big Funding Squeeze* at the Spring 2023 IMF/World Bank meeting in Washington DC . He added, "For a country like Nigeria, the future trajectory of its economy will depend on a whole host of variables; the reforms that the government decides to pursue, how effectively it uses the resources it has and the oil price trajectory. It is a combination of those factors that will determine the sustainability of Nigeria's debt. "Right now, Nigeria's debt looks manageable, but it is really also important, of course, and contingent on what policies will be pursued in the coming months and years."

While commenting on the sustainability of Nigeria's debt, Selassie argued that "[w]hether debt is sustainable or not, is not dependent on just one number, one threshold; rather, you have to look at a lot of indicators to assess the trajectory, whether the debt will be sustainable in the coming years or not." He gave examples of the adverse effects of recent administrations' previous trade and exchange policies and how these policies have hindered economic growth in the West African country. He said that “[o]ver the last several years, there has been a trade regime, foreign exchange regime, and they have all been very challenging and have not allowed Nigeria to have robust growth the country needs desperately.” Nigeria is facing a high inflation rate, 21.91 percent as of February 2023, revenue squeeze, high poverty level, oil theft and waste of trillions of naira on a controversial fuel subsidy policy.

Selassie, however, suggested possible exit strategies for countries where debt levels have become elevated and unsustainable. He noted that in such economies, restructuring is going to be unavoidable, and a well-functioning debt resolution framework will be vital to create the required fiscal space. Adding further, "Containing inflation should also be a priority as monetary policy needs to focus on keeping inflation firmly on a downward trajectory and ensuring that it pertains to the Central Bank’s target range. He also identified climate change as an area to be specifically considered. He noted that climate change is “increasingly, something that is weighing on policymakers in the region, on our people; and tackling this, including with support from the international community, will be very important.”

According to the World Bank, the Nigerian government spent 96.3% of its revenue on debt servicing in 2022, with the constant fiscal deficit worsening the country’s public debt stock. This was disclosed in the Macro Poverty Outlook for Nigeria, April 2023, released by the World Bank. The report also notes that fiscal and debt pressures will increase if the petrol subsidy is not phased out in June 2023, as envisaged in the 2023 budget. To adjust this deficit, the World Bank has advised policymakers to:

- Increase oil and non-oil revenues,
- Tighten monetary policies to reduce inflation, and
- Unify the multiple FX windows and adopt a single market-responsive exchange rate.

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