



# Tax Justice Coalition - Ghana

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## PRESS RELEASE ON THE PROPOSED DEBT RESTRUCTURING STRATEGY Issued by the Tax Justice Coalition, Ghana

Ghana's debt has officially been judged to be unsustainable with implications for the financial sector stability. The TJC Ghana recognises the combination of fiscal adjustment and debt operation in coming out of the crisis and wishes to commend the Finance Ministry for steps towards addressing the country's debt situation.

In an apparent response to calls on government to make a bold pronouncement or declaration on its position on debt restructuring to calm the market, the government announced its proposed debt restructuring proposal. However, TJC Ghana is disappointed with the Government's approach which, by all means, cannot be helpful in calming the market as may have been intended. Much as we agree that the financial system is considered the residual risk claimant of public debt overhang, translating into realized investor losses, the proposed investor haircuts, the debt operation or exchange in its current form delivers disproportionate adverse distributional effects on the financial system with the government practically sacrificing the welfare and livelihoods of its own citizens. The debt exchange arrangement is too draconian, drastic, too steep, and a bit unconscionable.

In fact, the debt exchange arrangement, though well-intended, has failed to signal the market for a possible positive reaction for the following reasons:

1. The domestic debt exchange has been too lopsided against the domestic bondholders, in relation to the unproductive government size and the needed expenditure cut that should have been done in the 2023 budget in the name of burden sharing.
2. The approach adopted by the government, that is, seemingly regulatory coercion to elicit compliance from the financial institutions does not bode well in generating confidence in the market. Given that the old bonds will be risk-weighted differently from the new bonds, this can be easily challenged at the court as the old bonds are contractual.
3. The government has exhibited bad faith in its incoherent pronouncements. President, Nana Akuffo Addo did promise Ghanaians that there will be no haircuts. However, contrary to this promise, the debt exchange programme, as announced, is already showing bad faith, which when coupled with the approach, is not helpful in restoring confidence in the markets to return to normalcy.

TJC Ghana is worried that the government has waited rather too long in announcing this draconian debt exchange even without sufficient consultation and blatant disregard for



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consensus building. This action may incur the wrath of shareholders and investors but, even more importantly, it will definitely bring untold hardship to the majority of Ghanaians and their businesses.

TJC Ghana maintains that the government has done just the minimum in the burden sharing that it has preached more and practised less. To the TJC Ghana, there is still considerable room for substantial growth-enhancing expenditure cuts by merging some ministries and downsizing the government's overall size. This would be an important first step towards greater governance reforms to be pursued along an IMF Supported Program as the country needs more than just an economic program now.

TJC Ghana recommends that:

1. Government reconsiders its approach to the debt exchange programme announced and engages bond holders as much as possible to avoid legal holdouts that have the possibility of sending the wrong signals which could prolong any recovery.
2. Government reviews the timelines/deadlines for the debt restructuring arrangements and allows for internal due processes to be followed by the various participating financial institutions which may entail shareholder meetings. The debt exchange as announced constitutes a significant event that requires their shareholder and/or board approval.
3. It is imperative that there is proportionality or allows creditor parity in the restructuring process so as not to overburden one group of creditors over the others, especially domestic bondholders;
4. TJC Ghana recognizes a combination of fiscal adjustment and debt operation in coming out of the crisis, and therefore, ask the government to urgently consider further expenditure-based fiscal adjustments by reducing the number of ministers to below 40 and merging some ministries as well as suspending the National Cathedral Project, among others.

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