

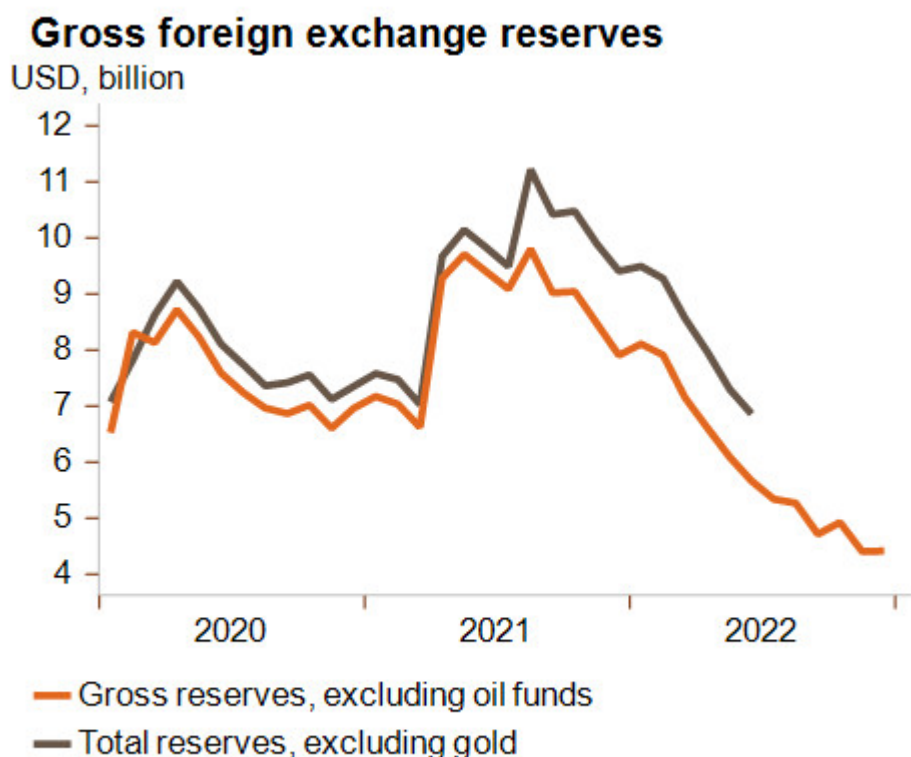
GHANA: SHORT-TERM POLITICAL RISK DOWNGRADED FROM 5/7 TO 6/7



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Uncontrolled public borrowing during consecutive electoral cycles and severe external shocks (collapse in natural resource prices between 2013 and 2017, followed by the Covid-19 pandemic, rising global interest rates and the impact of the war in Ukraine) pushed Ghana's public finances into unsustainable territories. Still, confidence in the markets remained strong for a long time given the country's huge potential, up until a certain point. In March 2022 Ghana lost access to the financial markets and in December the government stopped servicing its external debts and defaulted. A recent domestic debt exchange deal was positively welcomed by the markets and served as a positive step towards unlocking the IMF's pending USD 3 billion financial support programme. Over the past year, Ghana's cedi lost about 50% of its value against the USD, while foreign exchange reserves were cut by more than 40%. As shown in the graph below, the fall in reserves slowed down somewhat during the last two months of 2022. However, no recent reserves data have been published and reports on the government tapping into Central Bank reserves to meet the most pressing financing needs raise anxiety over gradual reserves depletion.



Source: IMF, BOG

In the light of a hanging liquidity crisis, IMF financial support has become critical. However, the outlook for finding an IMF deal soon, to open up the USD 3 billion in liquidity support, is very uncertain. Finding common ground between all creditor groups under the G20 Common Framework for Debt Treatments might be overshadowed by geopolitical tensions. Given the very slow pace of previous Common Framework debt treatments, Ghana might opt for bilateral discussions with China and its Eurobond holders instead. Either way, long delays in finding a debt treatment deal on Ghana's external public debt (with the largest proportion



again will be very challenging and rather unlikely. Consequently, liquidity pressure is set to worsen in the near term, leading Credendo to downgrade Ghana's ST political risk classification from 5/7 to 6/7.

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