

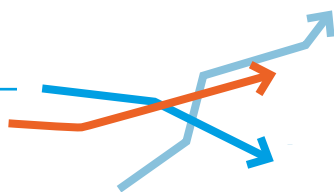
Ghana and the Credit Rating Agencies



Ghana expressed its reservations on the February 2022 Moody's rating assessment based on the agency's technical inaccuracies and omissions of important information.

This reignited the debate about the credibility of these credit rating agencies and raised questions about the robustness of their methodologies and biased opinions, especially towards African countries.¹

Divergent assessments by the major credit rating agencies:



- On 14 January 2022, Fitch downgraded Ghana's sovereign rating to B- with a negative outlook due to the surge in government debt and high-interest expenditure relative to revenue ratio.
- On 4 February 2022, Moody's downgraded Ghana from B3 to Caa1 with a stable outlook, referring to the challenges related to liquidity, high risk of debt default and weak revenue generation.
- On 4 February 2022, Standard & Poor's (S&P) maintained the B- rating with a stable outlook, referring to Ghana's strong growth prospects and flexible exchange-rate regime.

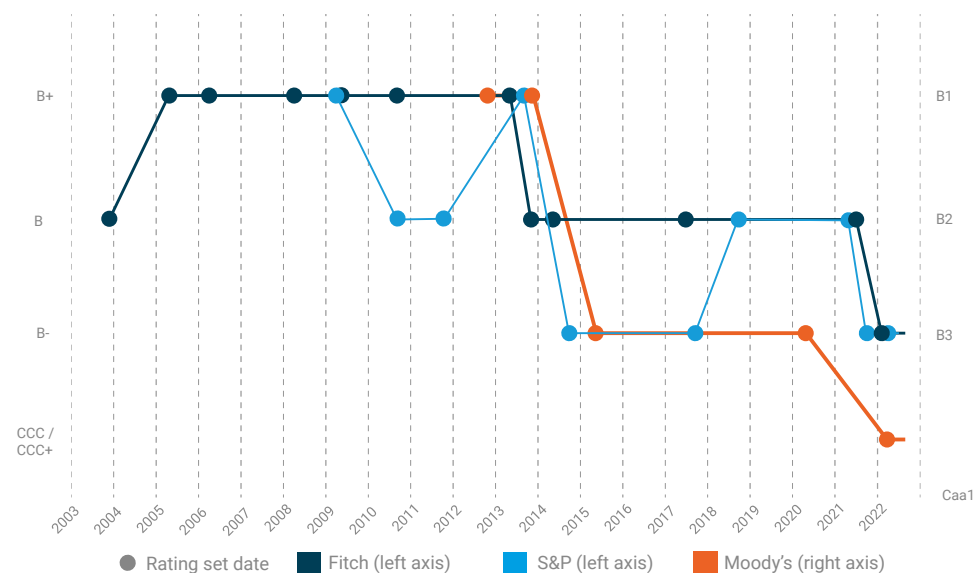
Current sovereign credit rating:

Moody's: Caa1
with a stable outlook

Fitch: B-
with a negative outlook

S&P: B-
with a stable outlook

Ghana's ratings by the three major credit agencies



Sources: <https://www.fitchratings.com/>, <https://www.spglobal.com/en/>, <https://www.moody's.com/>

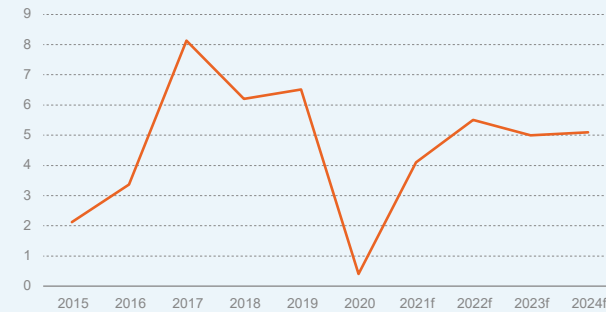
¹ For more information, please see 'Panel discussion on "credit rating agencies, fiscal space and fragility in Africa"', available from <https://www.un.org/osava/events/panel-discussion-%E2%80%99Credit-rating-agencies-fiscal-space-and-fragility-africa%E2%80%9D-1-march-2022> and the policy paper on Eurobonds, debt sustainability in Africa and credit rating agencies, available from https://www.un.org/osaa/sites/www.un.org.osaa/files/docs/2118580-osaa-eurobonds_policy_paper_web.pdf.

This is despite the Government's arguments emphasizing the country's strong economic fundamentals:



- forecasted growth recovery of 5 per cent
- reserves > five months of imports
- foreign financing of the 2022 budget of US\$1.5 billion
- balance of special drawing rights = US\$700 million
- fiscal consolidation reforms: announcement of 20 per cent expenditure cut starting in 2022
- implementation of the E-Levy, which could raise the tax-to-GDP ratio from 13 per cent to about 16 per cent

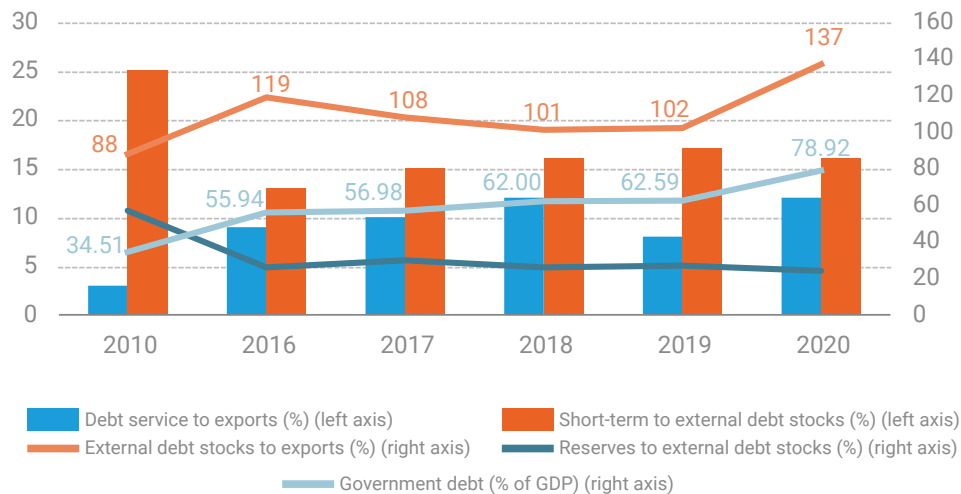
Annual GDP growth (%)



Source: World Development Indicators

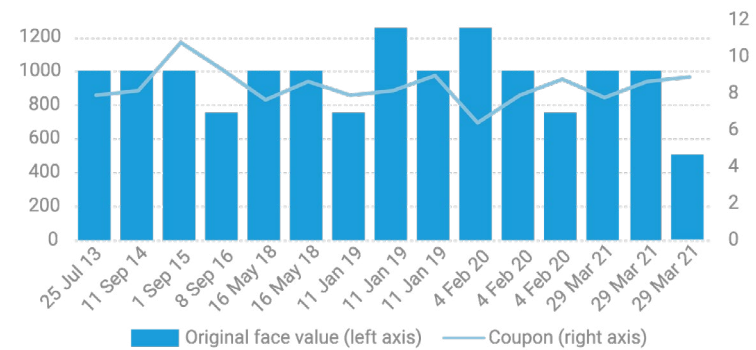
However, there are still concerns about Ghana's debt.

Ghana's debt indicators, 2010–2020



Source: World Bank International Debt Statistics 2022

Eurobonds issued & coupon rates, 2013–2021



Source: <https://www.moodys.com/>

Excessive borrowing at commercial terms is increasing the risk of debt default.



— Ghana is borrowing at high interest rates, averaging 8.3 per cent between 2013 and 2021.

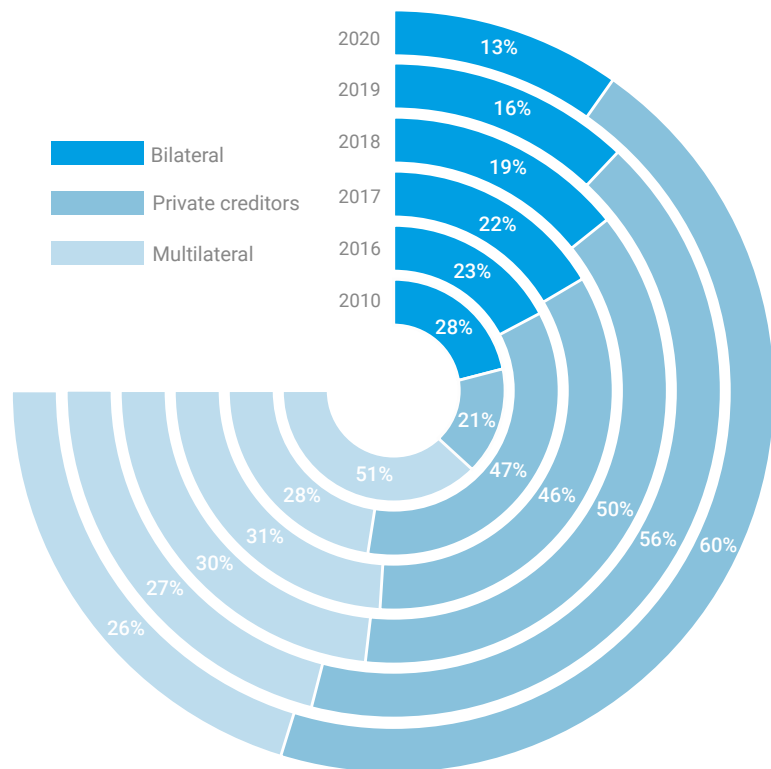
— Between 2018 and 2021, Ghana issued US\$10.5 billion worth of Eurobonds.

Commercial debt, especially bonds, has tripled in the last 10 years.



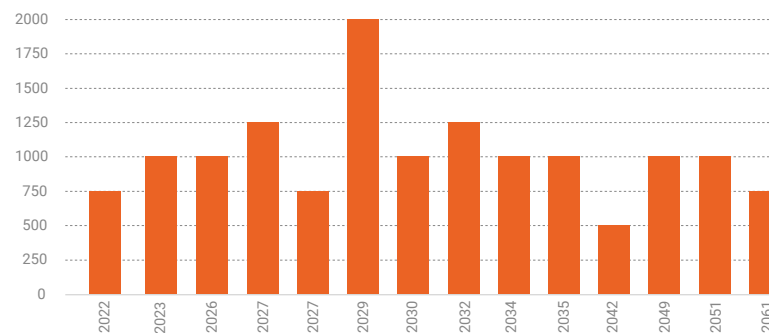
- Bilateral and multilateral borrowing has been decreasing for the last 10 years, whereas commercial debt has continued to grow. The latter is more expensive and tends to have shorter maturities than official debt.

Composition of Ghana's external debt by creditor, 2010–2020



Source: World Bank International Debt Statistics 2022

Ghana's Eurobond maturities, US\$ billion, 2023–2061



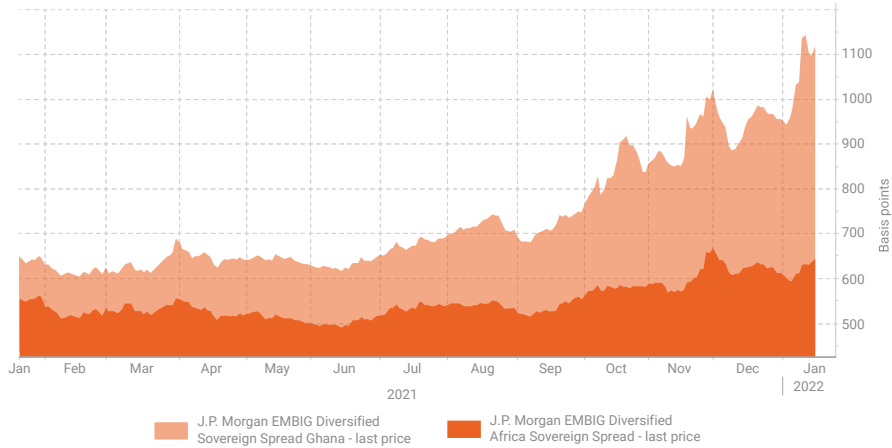
Source: <https://www.moodys.com/>

Short-term maturing debt could worsen the fiscal and debt situations.



- Between 2023 and 2035, Ghana is expected to pay back US\$7 billion as a maturing debt, of which US\$2 billion is to be paid back in 2029.
- Further pressure on the country's fiscal situation is expected due to Ghana's potentially limited access to the international capital market and the refinancing of its maturing debt with unfavourable conditions.

J.P. Morgan EMBI Global Diversified Index, Ghana vs Africa, 2021–2022



Source: <https://www.bloomberquint.com/markets/ghana-says-eurobond-yields-don-t-reflect-economic-reality>

Ghana's risk premium has widened more than those of African peers.



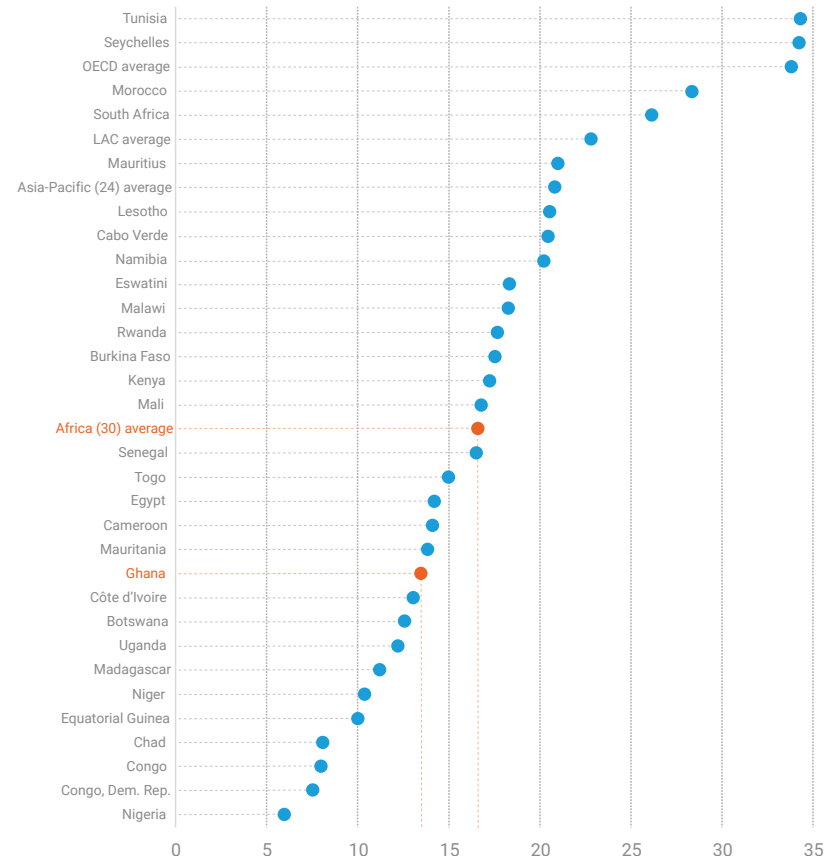
- Ghana's risk premium is 475 basis points above the African average.
- The gap between Ghana's spread and the African average is increasing.

Revenue mobilization is still below Africa's average.



- Priority needs to be given to strengthening domestic resource mobilization efforts to increase revenue and rationalize public spending.

Tax-to-GDP ratio 2019



Source: OECD/AUC/ATAF (2021), Revenue Statistics in Africa 2021. Data are available for 30 African countries.

Ghana's bonds' yield to maturity index, 2016–2022



Source: <https://www.moodys.com/>

The country's sovereign US\$ yield to maturity index has risen and reached its 10-year high.

- The recent sovereign credit rating downgrades have impacted the increase in yield spreads, but the latter have also been influenced by uncertainties around the current unstable global geopolitical situation.

Investor confidence in Ghana's short-term Eurobonds is decreasing.



- Ghana needs to reassure its investors and showcase its ability to pay back its debt, continue to have strong economic fundamentals and implement the announced reforms.

Performance of Ghana's Eurobonds in 2021

Amount (US\$)	Issue tenor (years)	Issue date	Maturity	Coupon	Yield at beginning of 2021/issue date (2021 bonds)	Subscription rate	Yield as at 31 Dec 2021	Change in yield
1,000	10	08/07/2013	08/07/2023	7.9%	4.1%		7.8%	3.7%
750	6	15/09/2016	15/09/2022	9.3%	4.8%		8.5%	3.7%
1,000	31	16/05/2018	16/05/2049	8.6%	8.4%		11.1%	2.7%
2,000	31	26/03/2019	26/03/2051	9.0%	8.6%		11.5%	2.9%
750	41	11/02/2020	11/02/2061	8.8%	8.5%	2.0 x	11.1%	2.6%
1,250	7	11/02/2020	11/02/2027	6.4%	5.5%		11.3%	5.8%
1,000	15	11/02/2020	11/02/2035	7.9%	7.5%		11.3%	3.8%
525	4	07/04/2021	07/04/2025	0.0%	6.7%	2.0 x	12.0%	5.3%
1,000	7	07/04/2021	07/04/2029	7.8%	7.9%	2.0 x	11.6%	3.7%
1,000	12	07/04/2021	07/04/2034	8.6%	8.8%	2.0 x	11.7%	3.1%
500	20	07/04/2021	07/04/2042	8.9%	9.3%	2.0 x	11.4%	2.1%

Source: www.cytonn.com