Update on Ghana's Eurobond Restructuring

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Back to the drawing board

The Ghanaian authorities and the representatives of holders of its Eurobonds held private discussions from mid-March to mid-April 2024 regarding the anticipated restructuring of the country's outstanding Eurobonds. The bondholder representatives comprised of an International Steering Committee (ISC) whose members control 40.0% of Ghana's outstanding Eurobonds and a Regional Steering Committee (RSC) whose members control 15.0% of the outstanding bonds. Together, the two steering committees control 55.0% of Ghana's outstanding Eurobonds and, in our perception, the outcome of Ghana's engagements with these creditor committees would be binding on all other bondholders. The private discussions focused broadly on proposed financial terms for the debt treatment and non-financial provisions relating to legal safeguards.

Highlights of the private discussions with bondholders

- **Proposed financial terms and matters arising:** Under the proposed financial terms, the Ghanaian Government, the ISC, and the RSC discussed a joint working debt treatment scenario in order to arrive at a mutual understanding on financial terms. The RSC agrees with the broad structure of the joint working debt treatment scenario. However, it expressed reservations on some of the parameters of the debt treatment, and rejected the financial terms of one of the options presented – that is, the PAR option.

  Consultations with the IMF indicated that the joint working scenario – when combined with the restructuring assumptions for other commercial creditors – would breach the IMF's Debt Sustainability Thresholds based on the framework of the first programme review. At the post-IMF spring meetings in April 2024, the Ghanaian authorities revealed that the debt treatment outcome would exceed the target debt-to-GDP ratio of 55.0% in 2028 by about 1.0pp. Consequently, all parties would return to the drawing board to re-work a different scenario for debt treatment consistent with the IMF Debt Sustainability Thresholds and mutually agreeable for bondholders.

  The proposed financial terms of the joint working scenario included two options (see here).

  The Disco Option:

  - an effective nominal haircut of 33.0% on the outstanding principal
  - a three-tenor structure with maturities in July-2030 (Bond Short), July-2035 (Bond Medium), and July-2038 (Bond Long)
  - a coupon rate of 5.0% p.a. accruing from 01st January 2024 to 01st July 2027, and stepped up to 6.5% p.a. afterwards
  - a soft amortization schedule with first instalment due in January 2026 (for Bond Short), January 2031 (for Bond Medium) and January 2036 (for Bond Long)

  The PAR Option:

  As an alternative to the Disco option, the joint working scenario also presented a PAR option where all bondholders could opt for the PAR option up to a limit of USD 1.6bn. As suggested by its name, the PAR option would not be subjected to a haircut on principal. However, it would attract an ultra-low coupon rate of 1.5% p.a. with final maturity in January 2043 and a first instalment in July 2034.

  Given the suspension of external interest payment since 2023, Past Due Interest (PDI) will be accrued up to 31st December 2023 and issued as a separate bond security with a 33.0% nominal haircut, at zero-coupon rate, maturity in January 2030, and first instalment in July-2024.

  Under both options, a consenting holder would receive a PDI bond and a consent fee of USD 10 for each USD 1,000 face value (that is, a consent fee equivalent to 1.0% of original face value).

Our views:

Terminating the accrued interest earlier than expected deepens the effective haircut on the proposed PDI bond

Given the ongoing suspension of interest payment on outstanding Eurobonds, we had expected that all Past Due Interest (PDI) would be accrued until a cut-off date close to the date of a potential restructuring deal in 2024. However, the joint working scenario showed accrued interest up to 31st December 2023, which surprised us. With the possibility of foregoing the interest due after the 2023 accruals, we opine that the effective haircut on the PDI bond could translate to around 50.0%, representing a deeper effective cut than the nominal haircut of 33.0% indicated in the proposed scenario. This possibly leaves a negligible upside potential for the PDI bond, with a prospect of extremely low liquidity of the bond.

We see potential upside of between 10.0% – 20.0% on post-restructuring secondary market exit, and up to 36.0% at maturity

At the prevailing distress levels, Ghana's Eurobonds currently trade at an average cash price of around USD 49.0 per USD 100 face value. Measured against the proposed nominal haircut of 33.0% on a USD 100 original face value, this translates into an upside of around 36.0% at maturity (assuming an entry at current levels). For post-restructuring exit at secondary market levels, we observed the yields of similar tenors for peer countries such as Egypt, Kenya, and Nigeria, which currently range between 9.5% – 10.5%. Assuming a similar exit yield for Ghana's post-restructuring bonds, we see recovery cash amount above the USD 50.0 mark or an upside of between 10.0% – 20.0% (vs current secondary market levels). However, investors who wish to exit their position before restructuring is completed are likely to incur losses, depending on the date and level of entry. This is because an exit before restructuring will imply foregoing accrued interest (given the prevailing suspension of interest payments) and possible capital loss.

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