SOCIALIST MOVEMENT OF GHANA (SMG)

21st March 2023.

STATEMENT ON THE DOMESTIC DEBT EXCHANGE PROGRAMME AND SUBSEQUENT CRISIS

On December 5th, 2020, the NPP-led Administration launched Domestic Debt Exchange Programme (DDEP) in which it invited institutional domestic bondholding public to voluntarily exchange GH¢137 billion worth of short-term treasury bills and medium to long term notes and bonds (including E.S.L.A. and Daakye) for a package of four new bonds to be issued by the Republic of Ghana at different tenor maturity periods till 2037. At the time, the proposed exchange excluded treasury bills also notes and bonds held by individuals. However, on the 26th of December, the latter position was reversed by Government on the grounds that every citizen should participate in the national burden-sharing act in order 'to tackle the economic crisis' and 'bring back macroeconomic stability'. This precipitated a citizen revolt as bondholders rose in unison to protect and enforce their rights as creditors to the Government.

The ensuing crisis over the domestic debt exchange was understandable because by the end of 2021 financial year, domestic debt stood at 51.7% of the total public debt of US$58.64 billion. Several stress tests conducted by the institutional holders, particularly; those of the financial institutions, showed that their operations and financial stability would be impacted by illiquidity or insolvency unless there is restructuring and evolving risks passed on to individual retail bondholders on the secondary market. The Government, taken aback by the strength of protests from several organised groups and to ensure success of its programme agreed to negotiate unconditionally with all stakeholders. Based on the engagements with financial sector industry associations and representative groups a revised programme, with alternatives, was released on 2nd February 2023. But, this new programme did not meet the expectation of organised labour, pension fund trustees and pensioners who elected not to participate leading to demonstrations and picketing. The social tension was dampened when at the official closure date of 10th February 2023, the Government agreed to directly exempt GH¢39.25 billion of the old treasury notes and bonds from the programme enabling it to meet its baseline participation rate of 80% with

GH¢82.99 billion out of GH¢97.75 billion old bonds (representing 84.81%) successfully exchanged.

Notwithstanding the foregoing, it is important to stress that the Government is pursuing a deliberate DDEP as part of its overall strategy to bring its public debts to a sustainable level which is currently estimated at 104% of the value of gross domestic production of goods and services. In order to secure an IMF Stabilisation Agreement and secure a bailout loan of US$3.0 billion and renewed access to the capital markets so as to borrow its way out of its debt crisis with new commercial loans, the Government of Ghana through the DDEP and external restructuring of its public debts with the Paris Club and China is expected to achieve a debt sustainability of 50% of GDP. The latter is the IMF Conditionality that the Government has been struggling to meet since December last year. But how did we arrive here?

The debt crisis being faced by Ghana and other countries is an outcome of the permanent debt crisis forged in the neocolonial monetary and financial policy structures of the Bretton Wood institutions since 1945. It is a result of imbalances induced by contradictory fiscal and monetary policy changes implemented by our various neocolonial governments which have left sub-Saharan government with external debt of US$789 billion at the end of 2022.

Government of Ghana came to the present position because its spending far outstrips its annual income since 2021 creating large fiscal gaps. Unable to generate enough revenue domestically, the Government resorted to heavy borrowing in the international bond market and local money creation through Bank of Ghana in the secondary Bond Market Specialist system. It is interesting to note that in both markets, the debts were not secured on real production of goods within the Ghanaian economy but on pure speculative financial flows. The sanctioning of Russia due to the Ukraine-Russia war led the influential Reserves Banks of the United States and Britain to raise prime interest rates to rein in inflation and prevent their economies falling into recession. Suddenly, Government of Ghana found its annual debt service obligations ballooning as it could not mobilize revenue resources domestically to meet them.

Faced with the risk of default and dwindling net foreign and assets of the banking sector, non-resident investors with portfolio investments cut their losses and withdrew precipitating dramatic depreciation of the cedi against all major currencies. In 2022, the Cedi lost 56% of its value against the dollar, driving fuel prices, for example, through the roof and smashing the purchasing parity of wages (even with a 30% cost-of-living-adjustment). The Ghanaian economy was in a full flight economic crisis threatening the survival of its government. The current crisis was evident since 2019. International rating agencies have been systematically downgrading Ghana's credit since late 2020 and the cost of borrowing has been abnormally high. International Banks stopped lending in mid-2022 and Government for most part had to borrow to pay public sector wages. In December 2022 Ghana defaulted on all debt service and lost policy credibility; leaving the IMF, the only best option.

Though structured formally as an international financial institution based in Washington DC whose members are States, IMF's primary objective is to assist member countries to achieve external stabilisation of their economies in the event of the occurrence of imbalance. It is essentially an enforcer for international finance capital who is its supplier of loanable funds. Its central role is not to promote development and growth but to ensure that Debtor Governments, however unconscionable, do not repudiate their debts. It plays the role through imposition of austerity measures on countries which seek policy credibility and financial bailout. Typically, these measures may include freezes on public sector employment and wages; increases in taxes; divestiture of "underperforming" state owned enterprises to the private sector and a slew of measures designed to make the country a more profitable place for foreign direct investment.

Government of Ghana met its first hurdle in securing an IMF facility. So now it can concentrate on foreign bondholders and bilateral creditors. But this is deceptive. The real fall out may be just starting. Firstly, holders of at least GH¢55 billion of original bonds rejected the DDEP. The Government remains legally obligated to service the original deal or negotiate a new one. Secondly, there is higher risk of Government defaulting on payment obligations when they are due. Thirdly, the full IMF austerity package is yet to be revealed. It will certainly involve great hardship for working people and the middle class. We are just at the beginning, not the end, of massive episode of class struggle. It is important to assess the forces that will play key roles in this struggle.

Politically, ordinary citizens – Organised Labour, Pensioners, members of individual bondholder groups - appear to have emerged from the first DDEP battle stronger. There is a spirit in national politics unseen for many years. There is no doubt that in the weeks and months ahead this spirit will engage as domestic bondholders reject Government bullying and demonstrate the power of organised resistance. We can expect legal and political challenges to Government and the Bank of Ghana as well as more sophisticated strikes, picketing and street demonstrations. However, this spirit of resistance is ideologically limited. It is focused on the NPP administration and not on the wider question of imperialism. It could well dissipate into petty partisan politics.

Politically, the DDEP has been a disaster for Government and the NPP. The internal disunity, disorientation, disorganisation, and demoralisation of the Party has been exposed publicly. The fact that the immediate past Chief Justice joined the picket lines and had subsequently been public in her criticism of Government's mismanagement of the economy signalled how deep elite opposition to the regime has become. The stark contrast between the Administration's rhetoric and performance is embarrassingly obvious to party stalwarts. In addition to non-delivery, it has become clear that the Government has no intention to sacrifice its profligate spending and consumption by reducing the extreme expense of the Presidency and his ministers.

How things move forward will depend on the ability of socialist and progressive forces to contextualise Ghana's debt crisis as part of a much broader socioeconomic crisis and to expose the workings of imperialism. We must explain that the DDEP and the debt crisis is not simply about a profligate NPP administration and is rather part of a systemic extraction and transfer of Ghana's wealth to International Finance Capital. We must also demonstrate that there is the socialist alternative that the Ghanaian people must fight for. The SMG commends the various organizations of individual bondholders, organised Labour and political parties who took up the struggle and picketed to achieve the Government's push back. The struggle is not over. Further unity is required of both those directly affected and citizens.

The Socialist Movement of Ghana urges the government to reduce the number of Ministers and merge Ministries. By so doing, the government can reduce its spending and restore the nation's economic stability. Moreover, it is important to promote the domestic production of rice and sugar crops while discouraging imports of non-essential goods. Also, the government needs to abandon Planting for Jobs and fund farmers directly. To boost the output of agricultural production, the SMG demands that the Extension Services also have to be revived and properly funded.

Kafui Kan Senaya

For General Secretary.