

## **WHAT THE DOMESTIC DEBT EXCHANGE PROGRAMME WILL MEAN FOR THE FUTURE OF INVESTMENTS IN GHANA.**

The Ghanaian economy has come into a plethora of economic battles which include the depreciating cedi, the ongoing IMF negotiations, cuts in government expenditure and salaries to free up funding, and businesses closing doors. As a result of these, the Ministry of Finance has taken a decision to seek assistance from the International Monetary Fund. With regards to the terms of agreement placed before the Ghanaian Government, the government needs to sort out the debts they owe individuals and companies hence the implementation of the Domestic Debt Exchange Programme.

The domestic debt exchange programme was launched by the government of the Republic of Ghana on 5th December, 2022. This was an invitation for a voluntary exchange of approximately 137 billion Ghanaian Cedis of the domestic notes and bonds of the Republic, including ESLA and Daakye bonds, for a package of New Bonds to be issued by the Republic (MOFA press release; *“Government of Ghana Domestic Debt Exchange: Potential Financial Sector Impacts and Mitigating Safeguards”* Dec 29 2022). The exchange, which excludes treasury bills in totality, is being carried out to help protect the economy and enhance our capacity to service our public debt effectively. In regards to this there are lots of effects on future investments. Below is a discussion of what the future holds for Ghanaians with the implementation of these programmes.

The two main benefits of the domestic debt exchange are elucidated below.

The financial burden on the government would be reduced since they would not pay huge interest on money borrowed from financial institutions especially the banks. The government would then have the opportunity to use the grants given to them by the International Monetary Fund (IMF) to fund developmental projects instead of using it to service the ever growing debt.

The economic situation in the country could be improved due to the reduction in the debt the government owes (as a result of the interest rates), the government would be able to make good use of the funds being provided by the IMF. The funds could be invested in profit yielding ventures such as tourism, agriculture and transportation as well as improving basic infrastructure in schools and internet connectivity to boost the digital economy.

However, below are some negative effects of the Domestic Debt Exchange Programme on future investments.

Firstly, the Domestic Debt Exchange Program would make most businesses incur losses since the required interest to be paid within the period of years in the agreement between government and the business entity would not be adhered to. Again, this program will lead to the collapse of the banking sector. Banks sell bonds to the government and due to the Domestic Debt Exchange Program, the interest rate within the period of time would be cancelled. When this happens, banks would collapse and this would result in low levels of funds for investment as only a few banks would have money saved with them by their

customers. With time, most of these customers would withdraw their savings and this could lead to the collapse of the banking sector.

Secondly, when the government fails to yield to the initial agreement made with the entities, such entities would lose money and this would lead to their collapse. They would not have the money to pay workers in their businesses and this will force them to shut down. Workers would be laid off and this would place a lot of burden on the Ghanaian economy as unemployment rates would increase. Due to this, most people would not have enough funds to invest and the state would still have to use their funds to support the state-owned enterprises and some of the businesses in the private sector.

Thirdly, the Domestic Debt Exchange program would deter investors from making highly profitable deals with the government in the future. This is because they would still have the fear that history would repeat itself. They will fear that the government would fall out of the initial deal and make them run at a loss. As a result of this, the government would not have any funds to invest since most of the funds the state uses for investment are acquired from individuals who invest in businesses and some business entities who sign a bond with the government.

Lastly, crime rates would increase in the country due to high unemployment rates, the reduction in salaries of workers. As the government does not pay the required interest, some of the business entities would have to reduce the pay of workers and this affects the livelihood of such workers. They could end up engaging in social vices such as bribery and corruption, armed robbery, pick pocketing, illegal mining, prostitution and others. All these vices deter investors from investing in the country's developmental projects since the country is not safe for them. Likewise, tourists would also stay away from visiting our country.

In conclusion, despite the fact that the Domestic Debt Exchange program comes with benefits, it also has a number of significant negative effects on businesses and individuals: Individuals will lose their jobs and become frustrated. Some people out of frustration will engage in illegal activities either to earn a living or to get rid of the frustration. This program would take a burden off the government in the short term, but the long term negative implications need to be thoroughly considered. How long can the government bear the issues of unemployment and high crime rate that has the ability to deter foreign investors from investing in the country for fear of not making the required returns on their investment? This would also deter internal investors for fear of losing their money to another domestic debt exchange.

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