



**REPUBLIC OF GHANA**

**MINISTRY OF FINANCE**

**MEDIUM-TERM DEBT MANAGEMENT STRATEGY  
2017-2019**

**APPROVED BY:**

**KEN OFORI-ATTA  
MINISTER FOR FINANCE**

**31<sup>st</sup> MAY, 2017**

## Table of Contents

FOREWORD.....	ii
SECTION 1: INTRODUCTION.....	1
SECTION 2: RECENT MACROECONOMIC DEVELOPMENTS.....	2
SECTION 3: DEBT PORTFOLIO MANAGEMENT.....	2
SECTION 4: FINANCING STRATEGY.....	3
Foreign Currency Risk Benchmark.....	3
Interest Rate Risk Benchmark.....	3
Refinancing Risk Benchmark.....	4
SECTION 5: DEBT MANAGEMENT POLICIES.....	4
Liability Management.....	4
Implementation of a Credit Risk Assessment Framework for SOEs.....	4
Borrowing Strategies.....	4
Adherence to new Regulatory and legal framework.....	5
Market Development and Communication Strategies.....	5
SECTION 6: CONCLUSION.....	5

## **FOREWORD**

It is with great pleasure that we publish the Medium Term Public Debt Management Strategy (MTDS) for the year 2017-2019, which is the first debt management strategy following the passage of the Public Financial Management Act, 2016 (Act 921).

This MTDS covers the public debt dynamics of Ghana as at end 2016 and would be updated periodically. The MTDS is expected to enhance coordination between fiscal and monetary policies to further promote the prudent economic management strategy of Government.

As highlighted in the 2017 budget, Government's key objective is to reduce the public debt to GDP ratio from the end 2016 figure of 73.07% to levels below 70% over the medium-term.

The 2017 MTDS provides the key debt management strategies to be implemented to *reduce cost and mitigate current risks associated with the debt portfolio*. I am optimistic that with the renewed investor confidence in Ghana and the support of our development partners, it is my fervent belief that the macroeconomic objective of achieving economic growth and debt sustainability would be met over the medium-term.

As indicated by His Excellency the President of the Republic of Ghana, Nana Addo Dankwa Akufo-Addo, in the State of the Nation Address, Government is resolved to pursue prudent and pragmatic policies to reduce the debt burden to more sustainable levels befitting our middle-income status. The MTDS would therefore serve as a useful repository of information for not only investors and development partners but also for researchers, civil society organisations and the general public.

We hope this report will enhance transparency and accountability in public financial management.

God Bless!



**Ken Ofori-Atta**

**Minister for Finance**

## **SECTION 1: INTRODUCTION**

1. The recent global commodity crises and domestic fiscal slippages rendered debt management policy ineffective to meet its policy target of debt sustainability. This situation increased the borrowing requirement that was mainly financed through domestic market sources.
2. Though yields on domestic debt trended downwards in the last quarter of 2016, the relatively high inflation rates amidst macroeconomic uncertainty led to the non-achievement of the debt management strategy of reducing refinancing risk. As a result, public debt vulnerabilities increased.
3. This development calls for a fiscal stance that ensures consolidation and a public debt management policy that reduces the risks identified in the debt portfolio. The Medium-Term Debt Management Strategy (MTDS) for 2017-2019 provides for the strategic direction of Government's intent on borrowing and debt management over the medium-term to achieve the dual objective of ensuring that financing needs are met at the lowest possible cost and at a prudent degree of risk.
4. The preparation of 2017-2019 MTDS is in fulfilment of Section 59 of the Public Financial Management Act, 2016 (Act 921), which requires the MTDS to take into account the following:
  - costs and risks embedded in the current debt portfolio;
  - future borrowing requirements;
  - macroeconomic framework;
  - prevailing market conditions; and
  - factors that may be relevant for the development of the strategy.

## **OBJECTIVES AND SCOPE**

5. The overall objective of the MTDS is to propose financing for the 2017-2019 medium term. The specific objectives of the strategy are as follows:
  - meet Government's funding needs on a timely basis at a relatively lower cost subject to prudent levels of risk;
  - promote the development of an efficient primary and secondary domestic market; and
  - meet any other public debt management goals determined by Government leading to the achievement of fiscal and debt sustainability.

6. The MTDS covers the public debt portfolio including debt contracted by the Central Government from domestic and external sources, but excludes guarantees and debt owed to the International Monetary Fund (IMF) for Balance of Payments purposes. The time horizon covered under this strategy is three years, spanning 2017 to 2019.
7. This strategy document is structured as follows: Section One provides a background and outlines the objectives and scope of the strategy; Section Two recent macroeconomic developments; Section Three gives an overview of the existing debt portfolio; Section Four outlines the borrowing plan and implementation of the selected strategy; Section Five gives an outlook of debt management initiatives for the medium-term and Section Six concludes the document.

## **SECTION 2: RECENT MACROECONOMIC DEVELOPMENTS**

8. According to the April 2017 update of IMF's World Economic Outlook, world output in 2016 was estimated as 3.1 percent, a marginal dip from the 2015 outturn of 3.2 percent. On a regional basis, growth in advance economies declined remarkably from 2.1 percent in 2015 to 1.6 in 2016, while that of emerging markets and developing countries remained unchanged from the 4.1 percent in 2015, indicating an uneven growth pattern around the world in 2016.
9. According to the Ghana Statistical Service, the provisional GDP growth was 3.5 percent for 2016. This is one of the lowest growth rates in about 2 decades.
10. Monetary policy stance remained tight throughout 2016 in an effort to address inflationary pressures and exchange rate depreciation. The monetary policy rate stood at 26.0 percent for a greater part of 2016, till a 50 basis points reduction to 25.5 percent, announced by the Monetary Policy Committee (MPC) in October 2016. Inflation eased gradually from 17.7 percent as at end 2015 to 15.4 percent at the end of 2016. Money market performance showed mixed results, with lowering yields on short-term securities and increases in medium to long-term bonds.
11. The balance of payments position improved from a deficit of US\$129 million (equivalent to 0.3 percent of GDP) in 2015 to a surplus of US\$ 247 million (equivalent to 0.6 percent of GDP). Gross foreign assets increased from US\$5,884.70 million at end 2015 to US\$6,161.80 million at the end of 2016.
12. The interbank exchange rate of the Cedi depreciated by 9.6 percent and 5.3 percent against the US Dollar and Euro respectively, but appreciated by 10.0 percent against the Pound Sterling. Developments in global interest rates indicate that the U.S. Federal Reserve's interest rate hikes have the possibility of increasing borrowing costs. This has implications on floating interest rate loans in the debt portfolio.

## **SECTION 3: DEBT PORTFOLIO MANAGEMENT**

13. At the end of 2016, Ghana's total debt portfolio, as covered by the MTDS analysis, faced a weighted average interest rate of 11.3 percent. The weighted average interest rate for external debt was 4.3 percent, reflecting a mix of debt contracted on concessional and commercial terms.

14. The weighted average interest rate of domestic debt was 20 percent, due to reliance on short-term domestic securities with higher interest rates, which was driven by several factors including higher rollover needs and inflation. It is anticipated that the average interest rate on domestic debt will decline over time as the economy stabilizes and inflation curtailed to lower levels.
15. The domestic debt portfolio has a shorter Average Time to Maturity (ATM) of 5.5 years compared to that of external debt of 9.3 years. Excluding the stock of non-marketable debt, ATM of domestic debt reduced to 1.3 years in 2016. In terms of maturity profile, 54.5 percent of domestic debt matured in one year. This is explained by the high proportion of treasury bills (T-bills) and medium-term instruments falling due. The average time to maturity of the total debt portfolio in 2016 was 7.7 years.
16. Interest rate risk is moderate for external debt and substantial for domestic debt. Fixed interest rate loans, including debt owed to multilateral and bilateral official creditors, and foreign investors accounted for a large proportion of external debt. Twenty-Six point One (26.1) percent of external debt will be refixed within one year due to the relatively small proportion of variable-rated external loans. For domestic debt, the weighted Average Time to Refixing (ATR) is 5.5 years but 54.5 percent of the portfolio will be refixed within a year. This is as a result of predominance of short-term domestic debt. ATR of the domestic debt excluding non-marketable debt was 1.3 years at end of 2016.
17. More than half of the total debt portfolio (55.7 percent) is exposed to exchange rate risk. The main exposure of the debt portfolio is to the USD (59.42 percent), SDR (22.24 percent) and EUR (10.56 percent).

#### **SECTION 4: FINANCING STRATEGY**

18. The chosen strategy is in line with the debt management objectives of borrowing at minimum cost and maintaining a prudent degree of risk while helping to develop the domestic capital market. It envisages an increased non-resident investor participation in the domestic bond market. The strategy assumes a 3-year zero-coupon bond in 2017, additional US\$1 billion investment in 10- and 15-year bonds and the continuous issue of medium term bonds (3-, 5-, & 7-year bonds). It also envisions a possible issuance of US\$1 billion bond on the ICM in 2018.

#### **Foreign Currency Risk Benchmark**

19. In external debt portfolio, a strategic benchmark of 65 percent (+/- 5 percent) exposures to the US Dollar will be pursued. Meanwhile, significant portions of Ghana's international reserves and export receipts are in US Dollars.

#### **Interest Rate Risk Benchmark**

20. The current structure of interest rate does not suggest any eminent interest rate risk for the debt portfolio. Over the medium term, the share of the floating rate debt in total external debt is expected to be within the range of 20 - 25 percent. The share of

the entire debt portfolio facing interest rate resetting in a year is not expected to be more than 35 percent.

### **Refinancing Risk Benchmark**

21. The management of refinancing risk is pursued to avoid bunching of debt service obligations and/or rollover risk, which may lead to liquidity crisis and/or excessive increase in the cost of debt servicing. With this strategy, bullet repayment structure and accumulation of debt servicing in one period (especially the short dated domestic debt) will be smoothed to ensure that it is aligned with flows on revenue structure to avoid liquidity crisis and high re-financing cost. The share of debt maturing in one year is expected to be within the range of 20-25 percent. The ATM of the debt portfolio is expected to be not less than 7.8 years.

## **SECTION 5: DEBT MANAGEMENT POLICIES**

22. Consistent with section 58 of the Public Financial Management Law 2016, Act 921, the strategic objectives of Government debt management in 2017 will be to ensure that Government financing needs are met; reduce borrowing costs over the medium, consistent with a prudent degree of risk; and promote the development of domestic debt market. To this end, Government will implement the following specific strategies:

### **Liability Management**

23. Government will implement sound liability management initiatives aimed at reducing interest cost, smoothing redemption profile and mitigating interest rate risk associated with the current debt portfolio. This will involve the implementation of a wide variety of operations, including the buy-back of existing debt using the Sinking Fund Account, possible interest rate hedging and structured financial instruments as market conditions permit and callable options in our debt operations.

### **Implementation of a Credit Risk Assessment Framework for SOEs**

24. The current financial state and governance structure of SOEs, particularly in the energy sector is worrying and this continues to pose challenges for fiscal policy outcomes. In this regard, Government will implement a credit risk assessment to guide SOE borrowing and continue to ensure that necessary security structures and instruments are put in place by the SOEs to ensure they honour their debt obligations and do not lead to contingent liabilities for debt management.

### **Borrowing Strategies**

25. Government is committed to maximizing access to concessional borrowing (with a grant element of not less than 35 percent), optimizing non-concessional external financing and restricting commercial borrowing to self-financing projects. On the domestic front, Government intends to lower borrowing cost, manage the growth of short term domestic debt, lengthen the maturity profile of domestic debt to reduce the rollover/refinancing risk and broaden the range of instruments offered in the domestic market.

### **Adherence to new Regulatory and legal framework**

26. Debt management operations in Ghana is guided by Article 171 of the 1992 Constitution of the Republic of Ghana and the provisions in the new Public Financial Management Act, 2016 (Act 921). The new law replaces the 1970 Loans Act. Government intends to follow the provisions in the law to ensure prudent debt management policies.

### **Market Development and Communication Strategies**

27. Government will use the book building process of bond issuance and enhance instrument targeting to encourage investor participation in longer dated instruments and boost secondary market trading. Additionally, government will continue to build benchmark bonds and deepen liquidity in the issued instruments (e.g. tap issuances).

28. Government would strengthen its investor engagements through educating and sensitizing investors on government activities on the domestic market to boost investor confidence. This will be done by segmenting the investors so specific investor needs can be addressed. In addition, the website of MoF will be redesigned to support this initiative.

### **SECTION 6: CONCLUSION**

29. With the coming into force of the MTDS for the period 2017-2018, the approved MTDS for the period 2016-18 has been annulled.