



REPUBLIC OF GHANA

2018 MEDIUM TERM PUBLIC DEBT MANAGEMENT STRATEGY

FOR THE PERIOD

2018-2021

Approved by

Cabinet

**In Fulfilment of the Requirements of Section 59 of the Public Financial Management Act,
2016 (Act 921)**

21ST MARCH, 2018

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FOREWORD

The 2018 – 2021 Medium Term Debt Management Strategy (MTDS) is the second to be published since the implementation of the Public Financial Management Law in 2017.

This 2018 MTDS is unique for the fact that, it is being developed at a time when our macroeconomic fundamentals are strengthening. Our economic fortunes in the past have given mixed results which necessitated our commitment to fiscal discipline, structural reforms and macroeconomic stabilization for growth and job creation. As a result, the economy is currently showing signs of robust recovery.

For example, the implementation of sound fiscal policies led to a reduction in the fiscal deficit in 2017. Government's re-profiling programme led to an extension of the redemption profile of domestic debt which has led to the successful reduction of the stock of short term debt, thereby reducing rollover and refinancing risks embedded in the portfolio.

More fundamental is the reduction in the debt to GDP ratio to below 70% which is the first time since 2006.

I am happy to acknowledge the successes achieved so far, but I am more committed to consolidating the stability of the gains made so far.

The 2017 Budget Statement and Economic Policy of Government projected a huge gross financing requirement which we successfully raised from the domestic market. For the medium term, our debt management objectives will still be focused on raising the required financing at the lowest possible cost and with a prudent degree of risk.

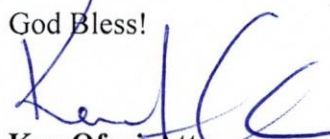
I take this opportunity to thank His Excellency, Nana Addo Dankwa Akufo-Addo, for directing us on the vision of seeing Ghana beyond aid. The true spirit of that would be seen in the financing of Government's operations. In that direction, we are committed to develop our domestic market for a stronger and more vibrant market.

I take the opportunity to appreciate our financial institutions and their support for Government debt objectives.

I acknowledge the contribution of the International Monetary Fund (IMF), World Bank and West African Institute for Financial and Economic Management (WAIFEM) who have provided technical support in terms of capacity building to Government of Ghana (GoG) stakeholders in the development of our annual MTDS.

Last but not the least, my appreciation also goes to the staff of the Ministry of Finance, Bank of Ghana and the Controller and Accountant General's Department for your hard work in preparing this document.

God Bless!



Ken Ofori-Atta
Minister for Finance

SECTION 1: INTRODUCTION AND BACKGROUND

1. The 2018 Medium-term Debt Management Strategy (MTDS) is based on the debt management objectives which is in accordance with Section 58 (1) of the PFM law. This is to ensure that:
 - a. the financing needs of Government are met on a timely basis;
 - b. borrowing costs to Government are as low as possible over the medium term and consistent with a prudent degree of risk; and
 - c. the development of the Ghanaian debt market.

2. The MTDS provides strategic direction on Government borrowing intent over the medium-term taking 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 appropriate strategy.

3. The preparation of 2018-2021 MTDS is in fulfilment of Section 59 of the Public Financial Management Act, 2016 (Act 921).

4. The scope of the 2018-21 MTDS covers the public debt portfolio which consists of 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 four years, spanning 2018 to 2021.

SECTION 2: COST AND RISK CHARACTERISTICS OF EXISTING DEBT PORTFOLIO

5. The 2017 MTDS, focused on reducing the growth of short-term domestic debt and lengthening the maturity profile of the domestic debt in order to reduce refinancing risk and diversify the domestic debt portfolio. The costs and risks characteristics of the debt portfolio as at end 2017 are shown in Table 1.

Table 1: Cost and Risk Indicators of Existing Debt Portfolio

Risk Indicators		External Debt	Domestic Debt	Public Debt
Cost of Debt	Interest payment as % GDP	1.5	5.6	7.0
	Weighted Average Interest Rate (%)	4.3	17.4	10.6
Refinancing Risk	Average Time to Maturity (ATM) - Years	9.1	7.2	8.2
	Debt Maturing in 1 year (% of total)	6.7	29.5	17.7
Interest Rate Risk	Average Time to Refixing (ATR) - Years	8.5	7.2	7.9
	Debt Refixing in 1 year (% of total)	22.5	29.5	25.9
	Fixed Rate Debt (% of total debt)	80.8	100	90
Foreign Currency	FX debt (% of total debt)			52
	Short Term FX debt (% of reserves)			14.8

6. **Interest payment:** The average interest payment as percent of GDP was about 7 percent. This comprised of external debt of 1.5 percent and domestic debt of 5.6 percent.

Weighted Average Interest Rate: The total debt portfolio, faced a weighted average interest rate of 10.6 percent. The weighted average interest rate for external debt was 4.3 percent, reflecting a mix of debt contracted on concessional and commercial terms. The weighted average interest rate of domestic debt was 17.4 percent.

7. Interest rate risk is moderate for both external and 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. About 22.5 percent of external debt will be re-fixed within one year due to the relatively small proportion of variable-rated external loans.
8. **Debt maturing in 1yr:** The debt maturing in 1 year as a percent of the total debt stock measures the refinancing risk of the debt portfolio. As at the end of 2017, the indicator for the total debt stock was 17.7 percent, of this, domestic debt was 29.5 percent while external debt was 6.7 percent.
9. **Average Time to Maturity:** The domestic debt portfolio, including non-marketable debt, has an improved Average Time to Maturity (ATM) of 7.2 years due to the re-profiling of the domestic debt stock in 2017.
10. **Foreign Exchange Risk:** More than half of the total debt portfolio (52 percent) is exposed to exchange rate risk. The main exposure of the external debt portfolio is to the US Dollar (USD) and Euro (EUR)

SECTION 3: BASELINE MACROECONOMIC ASSUMPTIONS

11. The following key macroeconomic objectives as highlighted in the 2018 Budget Statement and Economic Policy underpin the 2018-2021 MTDS:
- i) consolidating macroeconomic gains to support broad-based and inclusive growth;
 - ii) enhancing a competitive and enabling business environment for private sector led growth;
 - iii) building a strong and resilient economy able to withstand internal and external shocks;
 - iv) creating opportunity for a resource-based industrialization;
 - v) Ensuring friendly public sector agencies supportive of domestic and external investors; and
 - vi) public sector reforms and innovation.
12. These objectives will be achieved over the medium-term through commitment to maintain macroeconomic stability, ramping up of oil and gas production, growth in non-oil sectors, ongoing structural reforms, and the use of prudent debt management strategies¹.

¹ Source: The 2018 Budget Statement and Economic Policy of Ghana.

Real Sector

13. In 2018, real GDP is expected to grow by 6.8 percent, while non-oil GDP (GDP excluding oil and gas) is expected to grow by 5.4 percent. The growth takes into account the reduction in petroleum output based on scheduled maintenance works in 2018. Over the medium-term, real GDP is expected to grow by 7.3 percent in 2019 before moderating to 5.6 percent and 5.3 percent in 2020 and 2021, respectively. Economic growth is projected to average 6.2 percent over the medium term.

Fiscal Policy

14. The 2018 budget targets to reduce further the overall fiscal deficit to 4.5 percent of GDP in 2018, compared with provisional outturn of 6.0 percent of GDP in 2017 and sustain the primary surplus achieved at the end of 2017. Fiscal consolidation will be continued with domestic revenue mobilization and expenditure discipline. Specifically, government will broaden the tax base through policy changes, improve tax compliance, and plugging of revenue leakages. Tax compliance measures will include reforms to the Customs Warehousing and Transit Regimes, deployment of Fiscal Electronic devices among others. Other revenue policy measures to be implemented include the AU levy, Marine Gas Levy, Spectrum sale and renewal of Telcos licenses, and the new tax measures.

Monetary Policy

15. The Bank of Ghana will continue to anchor inflation expectations over the medium term through continuous tight monetary policy, exchange rate stability and fiscal consolidation measures. With increased commitment to achieving price stability, inflation declined steadily from 15.4 percent in 2016 to 11.8 percent by end December 2017, and is expected to continue a downward trend towards the target band of 8 ± 2 percent over the medium term.

SECTION 4: FINANCING STRATEGY

16. The chosen Strategy best responds to the achievements chalked in 2017 and is in line with the debt management objectives of borrowing at minimum cost, subject to a prudent degree of risk, while promoting the development of the domestic market.
17. The Strategy envisages an increased issuance of medium-term bonds (especially 5-year bonds) and longer-dated bonds (7-Year, 10-Year & 15-Year bonds) in the domestic bond market over the strategy period. Through this, the Strategy seeks to diversify the instrument base and provide suitable options with which institutions like the pension and insurance companies can match their assets to their liabilities. Additionally, it envisions an issuance of a sovereign bond with proceeds of about US\$1 billion to fund the budget and US\$1.5 billion to be used for liability management. The strategy also envisages a funding for possible contingent liabilities that may arise in 2018, as well as the annual issuance of US\$-denominated bond in the domestic market.

Foreign Currency Risk Benchmark

18. In external debt portfolio, a strategic benchmark of 70 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

19. 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 15-20 percent. The share of the entire debt portfolio facing interest rate resetting in a year is not expected to be more than 30 percent.

Refinancing Risk Benchmark

20. 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 15-20 percent. The ATM of the debt portfolio is expected to be not less than 7.8 years.

SECTION 5: DEBT MANAGEMENT POLICIES

Liability Management Operations

21. Government will continue the liability management and domestic debt re-profiling programme which has contributed to improving the debt mix and lowered domestic interest payments. The next phase of the programme will include:
 - External debt re-profiling based on market conditions through the potential use of debt exchanges and buybacks;
 - International bond issuance, with proceeds used in part to re-profile domestic debt: Government will explore potential issuance across a range of currencies and instruments;
 - Ongoing creation of benchmark domestic bonds through tap-ins to improve liquidity and secondary market trading;
 - Exploring the opportunity to deepen the domestic market by making domestic bonds more tradable on the international market; and
 - Building and maintaining cash buffers to support debt management operations.

Development of the Legal and Regulatory Framework

22. In addition to Article 171 of the 1992 Constitution, debt management operations are now guided by Sections 54 to 78 of the PFM Act, 2016 (Act 921). The new Law replaces the Loans Act, 1970 (Act 335) and came into full effect in 2017. All applicable provisions of the Law were incorporated into debt management activities. Regulations to the law are being prepared to effectively operationalise debt management processes.

Communication with Market Participants

23. For the 2018 medium term, Government will continue to engage market participants through town hall meetings, conference calls and investor presentations. The Ministry's website also currently hosts a dedicated investor relations section which will be updated regularly to ensure communication with market players.

Annual Borrowing Plan

24. To effectively implement the debt management strategy in 2018, Government will produce an Annual Borrowing Plan (ABP) based on the approved MTDS to inform investors, which is in line with Section 60 of the PFM Law.

Limits on Commercial Borrowing

25. As part of efforts to bring debt to sustainable levels, Government intends to place annual ceilings on contracting or guaranteeing of non-concessional external debt for projects for which concessional financing is not available.

Global Depository Notes

26. Government seeks to issue a conditional Global Depository Note (GDN) which is a domestic security to be accessed and settled in US Dollar. The debt instrument will be available to international investors who wish to invest in local bonds but are unable to do so due to operational limitations and mandate restrictions.
27. By issuing a GDN, Ghana will have the opportunity to diversify the pool of non-residents who participate in the local bond market. This will significantly increase visibility and analyst coverage of Ghana's domestic bond market and thereby lead to price discovery.

SECTION 6: CONCLUSION

28. With the coming into force of the MTDS for the period 2018-2021, the approved MTDS for the period 2017-2019 has been annulled.