REPUBLIC OF GHANA

**MINISTRY OF FINANCE**

# 2020-2023 MEDIUM-TERM DEBT MANAGEMENT STRATEGY

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

November 2019

# Contents

## Abbreviations

| | | |
|---|---|---|
| ABP | - | Annual Borrowing Plan |
| ATM | - | Average Time to Maturity |
| ATR | - | Average Time to Re-fixing |
| BoG | - | Bank of Ghana |
| BoP | - | Balance of Payments |
| ECF | - | External Credit Facility |
| EUR | - | Euro |
| FX | - | Foreign Exchange |
| GDP | - | Gross Domestic Product |
| ICM | - | International Capital Market |
| IMF | - | International Monetary Fund |
| MoF | - | Ministry of Finance |
| MTDS | - | Medium-Term Debt Management Strategy |
| NDF | - | Net Domestic Financing |
| PD | - | Primary Dealer |
| PFM | - | Public Financial Management |
| SDGs | - | Sustainable Development Goals |
| ST | - | Short-Term |
| TDMD | - | Treasury and Debt Management Division |
| USD | - | United States Dollars |
| WEO | - | World Economic Outlook |

## Foreword

This publication is the fourth edition since the implementation of the Public Financial Management Law in 2017.

The 2019 Medium-Term Debt Management Strategy (MTDS) has guided the borrowing programme for the 2019 fiscal year in addition to focusing on reducing refinancing risk embedded in the debt portfolio through liability management operations and development of the domestic debt markets.

Consequently, considerable progress has been achieved, including new issuances of 6-year and 20-year bonds to lengthen the maturity profile and extend the yield curve. About GH¢1,490.0 million worth of bonds (representing about 0.43% of GDP) was also issued by Government to cover the realisation of additional contingent liabilities in the banking sector.

The most notable event in 2019 was the issuance of the first triple-tranche Eurobonds offering by Ghana. Government issued three Eurobonds of 7-year, 12-year, and 31-year maturities in amounts of US$750.0 million, US$1,250.0 million, and US$1,000.0 million, respectively in March 2019. The US$3.0 billion offering was oversubscribed, thus showing the heightened international investor confidence in the country. These developments eased the heavy burden on effective debt management that existed during the first half of the year.

Despite these developments, risks from the energy and banking sectors post material risk to debt sustainability. In order to ensure that the public debt dynamics are on a sustainable path, potential risks and vulnerabilities to the public debt portfolio will need to be monitored and subjected to various macroeconomic and financial stress tests to improve debt dynamics.

To preserve debt sustainability, the MTDS will guide Government borrowing in 2020 and the medium term to support its infrastructure projects and programmes while taking cognizance of the cost of debt and minimising refinancing risks in the public debt portfolio.

The year 2020 is an election year. On behalf of the President, I would like to take this opportunity to assure Ghanaians that Government will ensure that spending will be within the appropriation ceiling approved by Parliament and will work diligently to adhere to the Fiscal Responsibility Act to maintain the requisite needed fiscal discipline.

I wish to extend my sincere thanks to all staff of the Ministry of Finance, Bank of Ghana, and the Controller and Accountant General's Department for their commitment and untiring efforts which undoubtedly helped to overcome all the challenges we encountered with tremendous success.

God Bless!!!

**Ken Ofori-Atta**

**Minister for Finance**

## Introduction

1. The 2020–2023 Medium-Term Debt Management Strategy (MTDS) has been prepared in fulfilment of Section 59 of the Public Financial Management Act, 2016 (Act 921) with the overall objective of proposing a suitable financing mix for the 2020-2023 medium-term to help mitigate the costs and risks in Ghana's public debt portfolio.
2. The latest World Bank/IMF Debt Management Strategy Analytical Tool, developed in 2019, was used to simulate and compare the cost and risk profile of alternative financing sources, debt compositions and cost-risk trade-offs with a view to identifying a robust debt management strategy.
3. The Public Financial Management (PFM) law specifies that outlines Ghana's debt management objectives are 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 to long-term, and consistent with a prudent degree of risk;
    c) the development of the Ghanaian debt market is expressly promoted; and
    d) any other action considered must impact postively on the public debt.
4. The MTDS covers public debt, 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 (BoP) purposes. The time horizon covered under this strategy is four years, spanning from 2020 to 2023.

## Performance Review of 2019 MTDS

5. Government's debt management objectives, as adopted in the 2019-2022 MTDS, were to determine an appropriate financing mix of the public debt portfolio over the medium-term. The strategy took into account Government's commitment to develop the domestic debt market by issuing more longer-dated benchmark instruments to help improve secondary market trading and made provision for contingent liabilities from the financial sector, in line with Government's commitment to ensure a resilient financial sector.
6. In line with the strategy, Government issued 3-Year, 5-Year, 6-Year, 10-Year and 15-Year bonds using the book building process to further lengthen the maturity profile of domestic debt. Also

tap-ins were done on medium-term instruments and the domestic US Dollar Bond to build benchmark domestic bonds.

7. A total of about GH¢1.4 billion (representing about 0.43 percent GDP) was also issued by Government to cover the bailout of financial institutions.
8. Difficulties faced in the energy sector and domestic market conditions in 2019 presented challenges to the smooth implementation of the strategy and adversely affected the cost-risk indicators of the public debt portfolio. To meet financing needs of Government, longer-dated instruments with remaining maturities of less than 180 days re-opened. This adversely impacted on domestic debt maturing in a year and increased the refinancing risk of the domestic debt portfolio, as in seen in Table 1, with domestic debt maturing in 1 year increasing from 28.4 percent at end-December 2018 to 33.7 percent at end-September 2019.

**Table 1: Cost and Risk Indicators of Existing Debt Portfolio (September, 2019)**

| Risk Indicators | | External debt | | | Domestic debt | | | Total debt | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2017 | 2018 | Sept 2019 | 2017 | 2018 | Sept 2019 | 2017 | 2018 | Sept 2019 |
| Cost of Debt | Weighted Av. IR (%) | 4.3 | 4.5 | 5.1 | 17.4 | 16.5 | 16.8 | 10.6 | 10.7 | 10.9 |
| Refinancing risk | Average Time to Maturity (ATM) -Years | 9.1 | 10.8 | 12.0 | 7.2 | 6.8 | 6.8 | 8.2 | 8.7 | 9.9 |
| | Debt Maturing in 1 year (% of total) | 6.7 | 6.2 | 4.9 | 29.5 | 28.4 | 33.7 | 17.7 | 17.6 | 16.4 |
| Interest rate risk | Average Time to Re-fixing (ATR) - Years | 8.5 | 10.3 | 11.6 | 7.2 | 6.8 | 6.8 | 7.9 | 8.5 | 9.7 |
| | Debt Re-fixing in 1 year (% of total) | 22.5 | 19.5 | 14.8 | 29.5 | 28.4 | 33.7 | 25.9 | 24.1 | 22.3 |
| | Fixed Rate Debt (% of total) | 80.8 | 83.2 | 88.0 | 100 | 100 | 100 | 90 | 91.9 | 92.8 |
| FX risk | FX Debt (% of total debt) | | | | | | | 52 | 48.5 | 50.3 |
| | ST FX Debt (% of reserves) | | | | | | | 14.8 | 14.1 | 17.7 |

*Source: MoF*

9. In March 2019, Government made significant achievements on the International Capital Market (ICM) by issuing a total of US$3.0 billion in 7-year, 12-year and 31-year Eurobonds, priced at 7.88 percent, 8.13 percent and 8.95 percent, respectively.

## Baseline Macroeconomic Assumptions for 2020-2023

10. The MTDS is underpinned by the following macroeconomic targets set for the 2020-2023 medium-term:
    - An average overall Real GDP growth of 5.7 percent;
    - An average non-oil Real GDP growth of 5.9 percent;
    - Inflation to be within the target band of 8±2 percent;
    - Overall fiscal deficit to be contained within the Fiscal Responsibility Act Threshold of not more than 5 percent of GDP;
    - The primary balance to be in a surplus annually; and
    - Gross International Reserves to cover at least 3.5 months of imports of goods and services.
11. Based on the overall medium-term macroeconomic objectives and targets, specific macroeconomic targets for the 2020 fiscal year have been set as follows:
    - Overall Real GDP growth of 6.8 percent;
    - Non-Oil Real GDP growth of 6.7 percent;
    - End-period inflation of 8.0 percent;
    - Fiscal deficit of 4.7 percent of GDP;
    - Primary surplus of 0.7 percent of GDP; and
    - Gross International Reserves to cover not less than 3.5 months of imports of goods and services
12. Provisional macro data on which the 2020 MTDS was formulated are presented as follows:

**Table 2: Macroeconomic Assumptions**

| | 2019* Prov. | 2020** | 2021** | 2022** | 2023** |
|---|---|---|---|---|---|
| | | | (Millions of GH¢) | | |
| Nominal GDP | 345,946 | 398,048 | 452,598 | 514,208 | 592,385 |
| Revenue & Grants | 54,565 | 67,071 | 72,988 | 83,103 | 94,272 |
| Expenditure | 70,199 | 84,509 | 93,058 | 101,057 | 112,123 |
| o/w Interest Expenditure | 19,595 | 21,691 | 22,722 | 21,209 | 22,489 |
| Primary fiscal balance | 3,240 | 2,811 | 2,152 | 3,255 | 4,638 |
| Overall fiscal balance | (16,355) | (18,881) | (20,570) | (17,954) | (17,851) |
| Gross International Reserves (in millions of USD) | 7,457 | 7,899 | 8,461 | 9,230 | 9,975 |
| | (% change) | | | | |
| GDP at constant prices | 7.0 | 6.8 | 4.9 | 4.6 | 6.5 |
| Real GDP (Non-oil) | 5.9 | 6.7 | 5.9 | 5.5 | 5.5 |
| | (% GDP) | | | | |
| Revenue | 15.8 | 16.9 | 16.1 | 16.2 | 15.9 |
| Expenditure | 20.3 | 21.2 | 20.6 | 19.7 | 18.9 |
| Interest Expenditure | 5.7 | 5.4 | 5.0 | 4.1 | 3.8 |
| Primary fiscal balance | 0.9 | 0.7 | 0.5 | 0.6 | 0.8 |
| Overall fiscal balance | -4.7 | -4.7 | -4.5 | -3.5 | -3.0 |

Note: *Projected outturn **All numbers are projections
*Source: MoF*

## Financing Strategy

13. The 2020 debt strategy focuses on an appropriate financing mix to mitigate the costs and risks that could adversely affect the achievement of the desired composition of the public debt portfolio with respect to borrowing from external and domestic sources.
14. The chosen strategy best responds to Government's intent to diversify the investor base and currency structure. It also seeks to continue the ongoing liability management programme to manage the risks embedded in the public debt portfolio and develop the domestic debt market as well.
15. The strategy envisages issuances / re-opens of medium to long-term instruments (2-year, 3-year, 5-year, 7-year, 10-year, 15-year and 20 Year bonds) and refinance some of the maturing Treasury bills and Bonds. The strategy also plans to issue domestic debt securities against possible contingent liabilities in 2020.
16. The strategy proposes issuances on the International Capital Market, and additional external borrowing for priority development projects, which cannot be financed on concessional terms.

**Foreign Currency Risk Benchmark**

17. For external debt portfolio, a strategic benchmark of 60 percent (+/- 5 percent) exposures to the US Dollar will be pursued, since significant portions of Ghana's international reserves and export receipts are in US Dollars.

**Interest Rate Risk Benchmark**

18. 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 variable 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 exceed 30 percent.

**Refinancing Risk Benchmark**

19. The management of refinancing risk will be 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. Bullet repayment structure and accumulation of debt servicing in one period (especially the short-dated domestic debt) will be smoothened to ensure that it is aligned with the structure of revenue flows to avoid liquidity crisis and high re-financing costs. The share of Treasury Bills in total debt stock is expected to be within 7 -10 percent for prudent treasury management purposes.
20. To be able to reduce tap-ins/reopens in the domestic debt portfolio, debt maturing in one year (netting off Treasury Bills) is expected to be 15±5 percent of the total domestic debt stock. The Average Time to Maturity (ATM) of the debt portfolio is expected to be not less than 8 years.

## Debt Management Policies

**Liability Management Operations**

21. Government will continue the implementation of its liability management programme to actively manage the public debt portfolio by redeeming benchmark size bonds before maturity with the view to minimise refinancing risk.
22. For 2020, Government liability management operations will include:
    - using part of Eurobond proceeds for re-profiling more expensive external and domestic debt based on market conditions;
    - coordinating with Bank of Ghana to undertake bond exchanges and buyback operations;

- building benchmark bonds through tap-ins/re-opens on existing bonds to increase liquidity and facilitate more efficient market-making on the secondary market ; and
- building cash buffers to support debt management operations;

**Reforms in the Primary Dealer System**

23. A major policy for 2020 will be the development of a harmonised primary dealer manual to guide the markets. Government also intends to promote Bond Specialists to support the development of the domestic market.

**Limits on Commercial Borrowing**

24. To ensure that the public debt dynamics are on a sustainable path, the public debt limits will be on nominal terms and on contracting terms, and related to the most vulnerable part of the sub-categories of total public debt.
25. In line with the 2020-2023 macro-fiscal framework, borrowing plans and the debt sustainability analysis, total non-concessional debt limit is pegged at US$ 3,750.00 million for 2020. In addition, Government will only assess and implement projects that are self-financing in order to reduce debt levels.

**Repurchase Agreements**

26. The Ministry will collaborate with the Bank of Ghana in the implementation of the new guidelines for repurchase Agreements in the country.

**Annual Borrowing Plan**

27. For effective implementation of the strategy, Government will prepare and publish an Annual Borrowing Plan (ABP) (consistent with section 60 of the 2016 PFM Law) to meet the aggregate borrowing requirements of Government in 2020. The borrowing plan will include active liability management operations (to ease rollover risks ahead of large upcoming maturities) and building on the recent issuances of 6-year and 20-year bonds per the MTDS.

**Communication with Market Participants**

28. Government will continue to actively engage investors and market participants through monthly and quarterly town hall meetings, conference calls, and investor presentations with Primary Dealers (PDs) and key market players. The meetings will focus on market developments,

financing plans, financing operations, and investor views, as well as performance of the PD system.

29. Furthermore, Government will also embark on periodic domestic roadshows to strengthen the investor base and allow local investors to build their domestic market presence. In addition, all notices and data related to Government securities will be made available on the Ministry's website and updated regularly to improve communication with market players and ensure ease of access to vital information.

## Conclusion

30. The MTDS for the period 2020-2023 represents a robust framework for prudent debt management. It provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the 2020 budget. The cost-risk trade-off of alternative borrowing strategies under the MTDS has been evaluated within the medium-term context.
31. The 2020-2023 MTDS, having considered both global and domestic market environment and related vulnerabilities, recommends an appropriate financing mix to mitigate the costs and risks in order to achieve the desired composition of the public debt portfolio with respect to borrowing from external and domestic sources. The debt strategy also takes into consideration the Debt Sustainability Framework which is concerned with long-term sustainability of debt.
32. With the coming into force of the MTDS for the period 2020-2023, the approved MTDS for the period 2019-2022 has been annulled.

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*Professional, Ethical, Efficient, Responsive – Transforming Ghana Beyond Aid*
Finance Drive, Ministries-Accra  Digital Address: GA - 144-2024  MB40, Accra - Ghana
+233 302-747-197  info@mofep.gov.gh  mofep.gov.gh  @ministryoffinanceghana