REPUBLIC OF GHANA

MINISTRY OF FINANCE

2019 MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS)

Approved by Cabinet

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

November, 2018

CONTENTS

LIST OF TABLES

FOREWORD

The 2019–2022 Medium Term Debt Management Strategy (MTDS) sets out the debt strategy of the country over the medium term with respect to borrowing from external and domestic sources. It is the second to be published since the implementation of the Public Financial Management Act, 2016 (Act 921) in 2017.

The aim of the MTDS is to support Government's strategy in implementing the 2019 budget and over the medium term by ensuring that the government's financial requirement and payment obligations are met at the lowest cost with prudent degree of risk in line with Medium Term Fiscal Framework.

Consistent with the PFM Law and with respect to transparency and accountability, the MTDS therefore emphasises Government's commitment to developing and designing a strategy that is evidence based and feasible in ensuring that public debt levels remains sustainable and supports broad-based and inclusive growth.

The 2019 MTDS recognizes that a diversified investment base, currency structure, liability management operations and development of the domestic debt market is important for managing risks on a country's public debt portfolio. To address this, government will diversify its sources of external borrowing, by accessing international capital markets by way of issuing Century bond, Green bond, Samurai bond, Panda among others.

On the development of the domestic debt markets, government is in the process of reviewing the primary dealership framework and facilitates securities trading on the domestic market through the Ghana Fixed Income Markets (GFIM).

On the operational level, and with zero central bank financing of the budget still in force, the MTDS makes provision of a revolving cash buffer beyond the net domestic financing to cater for liquidity and liability management. In this regard, an annual borrowing plan and issuance calendar will be prepared to operationalise the MTDS.

Finally, let me underscore our commitment to prudent debt management in accordance with the PFM Law. We assure public that government will continue to manage the public debt prudently and help ensure that we don't get into a situation of debt distress which could overburden our future generations.

God Bless!

Ken Ofori-Atta
Minister for Finance

SECTION 1: INTRODUCTION AND BACKGROUND

1. The overall objective of the MTDS is to propose financing for the 2019-2022 medium term, with specific objectives to:
   - 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.

2. The preparation of 2019-2022 MTDS is in fulfilment of Section 59 of the Public Financial Management Act, 2016 (Act 921), which requires the MTDS to consider 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.

3. The MTDS covers the public debt portfolio 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 2019 to 2022.

SECTION 2: COST AND RISK CHARACTERISTICS OF EXISTING DEBT PORTFOLIO

4. The 2018 MTDS focused on consolidating the achievements of the previous year's strategy by continuing efforts to reduce the growth of short-term domestic debt and to lengthen the maturity profile of the domestic debt. It also sought to reduce refinancing risk and interest rate risk embedded in the domestic debt portfolio. The costs and risks characteristics of the debt portfolio as at end 2018 are shown in Table 1.

Table 1: Cost and Risk Indicators of Existing Debt Portfolio (End Dec. 2018)

Risk Indicators		External debt	Domestic debt	Total debt
Cost of Debt	Weighted Av. IR (%)	4.5	16.5	10.7
Refinancing risk	Average Time to Maturity (ATM) -Years	10.8	6.8	8.7
	Debt Maturing in 1 year (% of total)	6.2	28.4	17.6
Interest rate risk	Average Time to Re-fixing (ATR) - Years	10.3	6.8	8.7
	Debt Re-fixing in 1 year (% of total)	19.5	28.4	24.1
	Fixed Rate Debt (% of total)	83.2	100.0	91.9
FX risk	FX Debt (% of total debt)			48.5
	ST FX Debt (% of reserves)			14.1

Source: MoF

5. **Weighted Average Interest Rate:** The total debt portfolio faced a weighted average interest rate of 10.7 percent. The weighted average interest rate for external debt was relatively low at 4.5 percent, reflecting a mix of debt contracted on concessional and commercial terms, whereas that of domestic debt was 16.5 percent.

6. **Average Time to Maturity:** On account of the successful debt re-profiling programme initiated by Government, the Average Time to Maturity (ATM) of the domestic debt portfolio, including non-marketable debt stood at 6.8 years as at end December 2018.

7. **Debt maturing in 1 year:** The stock of debt maturing in 1 year as a percent of the total debt measures the refinancing risk of the debt portfolio. As at the end of 2018, the total debt stock maturing in a year was 17.6 percent. In terms of domestic debt, however, the share of debt maturing in a year was 28.4 percent, and about 6.2 percent as a share of external debt.

8. **Interest Rate Risk:** 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 19.5 percent of external debt is expected to be re-fixed within one year due to the relatively small proportion of variable-rated external loans in the debt portfolio.

9. **Foreign Exchange Risk:** As at end December 2018, a total of 48.5percent, close to half of the total debt portfolio is exposed to exchange rate risk, with the main exposure of external debt to the US Dollar (USD) and Euro (EUR).

SECTION 3: BASELINE MACROECONOMIC ASSUMPTIONS

10. The 2019-2022 MTDS is underpinned by the following strategic pillars highlighted in the 2019 Budget Statement and Economic Policy:
    - Restoring the economy;
    - Transforming agriculture and industry;
    - Strengthening social protection and inclusion;
    - Revamping economic and social infrastructure; and
    - Reforming public service delivery institutions.

11. The achievement of these objectives over the medium-term is hinged on Government's commitment to promote inclusive growth without compromising on fiscal consolidation; anchor fiscal policy to reduce the fiscal deficit to low and sustainable levels; reduce the overall public debt burden; strengthen the inflation targeting regime and pursue complementary monetary policy to promote growth and pursue complementary external sector policies to ensure exchange rate stability and realize favourable current account[1].

Fiscal Policy

12. Government's fiscal stance for 2019 and the medium-term will focus on macroeconomic stability, scale up budget execution of its growth-oriented flagship programmes, support industrialization, and continue with the ongoing financial sector clean-up. The fiscal deficit (cash basis) in 2019 is projected to be around 4.2 percent of GDP, consistent with Government's fiscal rule of a budget deficit of not more than 5 percent of GDP in each fiscal year as stated in the 2019 Budget Statement on account of prudent fiscal consolidation measures and upholding fiscal discipline.

Real Sector

13. GDP projections for the medium-term is centered on the 2018 revised GDP growth. Over the medium-term spanning 2019-2022, real GDP is projected to grow by 7.0 percent on average, with projected growth rates of 7.6 percent, 7.0 percent, 5.8 percent and 7.6 percent in 2019, 2020, 2021 and 2022, respectively. Non-oil GDP (GDP excluding oil and gas) is expected to

[1] *Source: The 2019 Budget Statement and Economic Policy of Ghana*

grow by 6.2 percent in 2019 and at an average on 6.6 percent over the medium term.

Monetary Policy

14. BOG will continue to anchor inflation expectations over the medium term and steer inflation towards the medium-term target band of 8±2 percent through continuous tight monetary policy, exchange rate stability and fiscal consolidation measures. With increased commitment to achieving price stability, inflation is expected to continue a downward trend to close the year 2019 at 8 percent.

SECTION 4: FINANCING STRATEGY

15. The chosen Strategy best responds to Government's intention to diversify the investor base and currency structure. The Strategy 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 part of the strategy, Government will explore the possibility of issuing new financing instruments such as Century bond, Green bond, Samurai bond, Panda bond, among others, to diversify the investor base.

16. The Strategy envisages the continuous 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. The Strategy assumes a sovereign bond issue of up to US$3 billion on the ICM, with proceeds of about US$2 billion to fund the budget and US$1 billion to be used for liability management. The Strategy also envisions the issuance of domestic debt against possible contingent liabilities that may arise in 2019, as well as the issuance of US$-denominated bond in the domestic market.

Foreign Currency Risk Benchmark

17. For the external debt portfolio, a strategic benchmark of 70 percent (+/- 5 percent) exposure 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

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 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

19. 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 smoothened 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

20. Government will continue the currently on-going liability management and debt re-profiling programme which has so far contributed to improving the debt mix and lowered domestic interest payments to help manage the risks embedded in the debt portfolio.

21. To mitigate the forex risk associated with bond redemptions which arises from high exposures to offshore investors, buyback auctions will be conducted in close coordination with the Bank of Ghana to smoothen both the redemption profile and any associated forex risk from the repatriation of offshore flows.

22. Government will undertake bond exchanges and buyback operations to manage roll-over and refinancing risk by consolidating the large number of outstanding securities into fewer and more liquid lines. The cost of diminishing this roll-over risk will thus be the sum of premiums charged by investors to sell back or switch their holdings.

23. Government will also continue its benchmark policy to re-open existing bonds to create large sized benchmarks to increase market liquidity and facilitate more efficient market making. Re-opens would however be executed prudently at key maturities, preferably not less than 1 year, to avoid increasing roll-over risk at maturity. Building sufficient cash buffers to support debt management operations will also be a key goal of Government over the medium term.

Primary Dealer System

24. To enhance efforts to develop the primary and secondary domestic markets and facilitate a more efficient primary dealer (PD) system, Government will

embark on reforms to the current primary dealer structure to enhance its effectiveness. These include, but are not limited to the following:

- revising the documentation to ensure PD obligations and privileges are well balanced, feasible and enforceable;
- stronger oversight of PD support of the secondary market, including disciplinary measures for non-performance; and
- replacing Joint Book Runners (JBRs) with a Bond Market Specialist group under much stricter rules, requirements and obligations with regards to marketing, selling, distributing and trading Government bonds.

25. These reforms will help to reveal current inconsistencies between PD rights and obligations and incentivize those who really want to put more effort into domestic market development.

Secondary Market

26. To promote price discovery, Government will introduce classic repos to hedge risk of unwanted exposures to reduce volatility in the secondary market.

27. To support the market and prevent squeezes in the price of sought-after bonds, government will introduce an official Repo facility. The terms and conditions of the facility will specify maximum amounts and length of the repos as well as fees to be charged for providing such a service.

Communication with Market Participants

28. Government will continue to actively engage investors and market participants through monthly and quarterly town hall meeting meetings, conference calls and investor presentations with 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. Regular meetings will also be held with pension fund managers and insurance companies, as well as regulators of the financial sector, such as BOG, SEC, NPRA and NIC.

29. Government will also embark on periodic domestic roadshows to strengthen the investor base and allow the 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.

Credit Risk Policy

30. As part of Government efforts to manage fiscal risks arising from issuance of guarantees and on-lent facilities to public entities, a credit risk assessment framework was developed and operationalised. The operationalisation of the framework focused on State Owned Enterprises (SOEs) in the energy. Going forward, Government intends to extend the credit risk assessment to cover financial institutions to minimize the occurrence and impact of contingent liabilities in the financial sector.

National Borrowing Guidelines

31. Government has prepared National Borrowing Guidelines to regulate acquisition of loans/credit, both concessional and non-concessional, by Ministries, Departments and Agencies, local authorities and SOEs. The guidelines also highlight conditions under which guarantees can be issued by Government and/or loans that can be on-lent to SOEs, taking into consideration the credit risk assessment of these institutions.

Limits on Commercial Borrowing

32. As part of Government 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.

Annual Borrowing Plan

33. To effectively implement the debt management strategy in 2019, Government will prepare and publish an Annual Borrowing Plan (ABP) based on the approved MTDS to inform investors, in line with Section 60 of the PFM Act.

SECTION 6: CONCLUSION

34. With the coming into force of the MTDS for the period 2019-2022, the approved MTDS for the period 2018-2021 has been annulled.

REEP

Responsive | Ethical | Efficient | Professional

REPUBLIC OF GHANA

MINISTRY OF FINANCE

Responsive, Ethical, Efficient, Professional – Transforming Ghana Beyond Aid

Finance Drive, Ministries-Accra Digital Address: GA - 144-2024 M40, Accra - Ghana
+233 302-747-197 info@mofep.gov.gh mofep.gov.gh @ministryoffinanceghana