REPUBLIC OF GHANA

MINISTRY OF FINANCE

2021-2024 MEDIUM-TERM DEBT MANAGEMENT STRATEGY (MTDS)

Prepared by the Ministry of Finance

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

March, 2021

INTRODUCTION AND BACKGROUND

The Medium Term Debt Strategy (MTDS) is based on the debt management objectives as stated in Section 58 of the Act 921 and it concerns the following: ensuring that the financing needs of Government for the medium term are met on a timely basis; borrowing costs are as low as possible and consistent with a prudent degree of risk; promotion of the debt market and pursuing any action considered to impact positively on public debt.

As part of the measures to reduce risk, Government will pursue liability management of the debt portfolio based on non-distressed debt transactions. This could indirectly affect cash flows from government fiscal operations when the timing of Liability management coincides with negative carry on idle cash.

This MTDS covers the period 2021 to 2024. The strategy considers the costs and risks embedded in the current debt portfolio; future borrowing requirements for the medium term, the 2021 macroeconomic framework, the prevailing market conditions and other factors necessary to develop the strategy. This is in fulfilment of the statutory requirements in Section 59 of Act 921.

PERFORMANCE OF THE 2020 MTDS

The macroeconomic framework of Ghana for 2020 was on a favourable path with macroeconomic stability restored and fiscal consolidation gaining root and consistent with a monetary policy stance that had supported a strong external sector development.

In addition to this, the financing conditions for the Government was favourable, which supported growth (even with the COVID-19 pandemic) and inflation within the targeted corridor.

Investor sentiments were high and their interest was once again heightened for Ghana’s Eurobond issuance in February 2020 resulting in a size of US$ 3.0 billion.

The COVID -19 pandemic hit Ghana around March 2020 and this adversely affected the economy’s positive economic performance. Consequently, the original MTDS had to be recalibrated to ensure the financing gap of government is met.

This included the IMF Rapid Credit Facility of GHS 5.6 billion (1.45% of GDP); African Development Bank Funding of GHS 389.7 million (0.1% of GDP), European Union of GHS 504 million (0.13 % of GDP); the Bank of Ghana Asset Purchase Programme of GHS 10 billion (2.61% of GDP); and the World Bank funding of GHS 1.1 billion (4.6% of GDP).

Table 1. The Cost and Risk Analysis

		EXTERNAL				DOMESTIC				TOTAL			
		2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
Cost of debt	Weighted Av. IR (percent)	4.3	4.5	5.1	5.3	17.4	16.5	17.1	17.2	10.6	10.7	11.0	11.7
Refinancing risk	ATM (years)	9.1	10.8	12.4	12.9	7.2	6.8	5.8	4.8	8.2	8.7	9.8	9.4
	Debt maturing in 1yr (percent of total)	6.7	6.2	4.7	3.1	29.5	28.4	31.7	28.8	17.7	17.6	15.3	14.3
Interest rate risk	ATR (years)	8.5	10.3	12.0	12.5	7.2	6.8	5.8	4.8	7.9	8.5	9.5	9.2
	Debt refixing in 1yr (percent of total)	22.5	19.5	15.2	11.9	29.5	28.4	31.7	28.8	25.9	24.1	21.7	19.2
	Fixed rate debt incl T-bills (percent of total)	80.0	83.2	87.6	89.5	100	100	100	100	90	91.9	92.5	94.1
FX risk	FX debt (percent of total debt)									52	48.5	50.6	46.5
	ST FX debt (percent of reserves)									14.8	14.1	17.3	13.4

Cost of Debt

The Cost of debt as measured by the Weighted Average Interest shows a marginal increase from 11.0% in 2019 to 11.7% in 2020.

The external weighted average interest rate increased slightly from 5.1% to 5.3% on the back of longer tenor coupons of government financing in 2020.

On the other hand, weighted average interest rate on the domestic stock of debt increased from 17.1 to 17.2 for 2019 and 2020 respectively.

Refinancing Risk

One of the key policies of Government was to elongate the tenor of bonds and loans. The average time to maturity shows an overall increase from 8.2 years in 2017 to 8.7 years in 2018 and subsequently 9.8 years in 2019 and a marginal reduction in 2020 to 9.4 years.

Average Time to Maturity (ATM), shows a declining trend for the domestic debt. This arises mainly from the building of benchmark size bonds and tap-ins to existing bonds. On the other hand, ATM on the external stock of debt indicates a consistent increase from 9.1 years in 2017 to 12.9 years in 2020. This arises mainly from the longer tenor Eurobonds issued in 2019 and 2020.

In terms of maturity profile, 28.8 % of domestic debt was expected to mature in 2020. This is explained by the high proportion of treasury bills and medium-term instruments which matured within the year whiles external debt witnessed a consecutive reduction from 6.7% in 2017 to 3.1% in 2020.

Foreign Exchange Risk

About 46.5 % of the debt portfolio is exposed to exchange rate risk. The main exposure of the debt portfolio still remains the US Dollar and the Euro, which make up about 70.66 % and 16.75 % of the external debt stock respectively.

2021 AND MEDIUM TERM MACROECONOMIC FRAMEWORK

The 2021 and medium Term Outlook points to a strong recovery from the effect of the COVID-19 pandemic. The increased in Government deficit in 2020 is expected to be temporary and therefore the medium term would consolidate to the Fiscal Responsibility threshold of less than 5% of GDP by end of 2024.

The thrust of the 2021 Budget is anchored on debt sustainability.

For this to be achieved, real GDP growth is expected to be on an average of 5.0 % for the medium term. Excluding oil, the GDP growth is expected to record an average of 4.9%.

Inflation is expected to decline and be within the Central Bank target band of 8±2 percent.

Overall fiscal balance and primary balance to return to the Fiscal Responsibility Act (FRA) threshold of 5 percent of GDP and a positive primary balance by 2024.

Gross international reserves to cover at least 4.0 months of imports above the threshold of 3.5 months of import cover.

2021 MEDIUM TERM FISCAL FRAMEWORK

For the 2021-2024 fiscal framework, the fiscal deficit is expected to moderate for the period as Government implements its revitalization and transformation agenda within the context of debt sustainability. The fiscal deficit is therefore, expected to reduce from the provisional 11.7% in 2020 to 9.5% in 2021 and reduce further to 4.5% by 2024.

The sources of funding for the deficit is expected to be from domestic and external sources.

Financing Strategy

Among all combination of strategies, the optimal strategy, that responds best to Government's intention to diversify the investor base and currency structure includes extension of tenor, introduction of new instruments and effective communication with the markets.

The strategy also seeks to commence liability management programme to manage the risks embedded in the public debt portfolio for both the external and domestic debt.

The Strategy assumes a continuous issuance of medium to long term domestic bonds in 2021.

It also assumes the issuance of domestic benchmark instruments in 2021.

The strategy also recommends an international capital market issuance for Eurobond, Sustainable bonds, Diaspora Bonds and, or syndicated loans of up to a limit of US$ 5.0 billion.

Foreign Currency Risk Benchmark

In external debt portfolio, a strategic benchmark of 70±5 % exposure to the US Dollar will be pursued. Meanwhile, significant portions of Ghana's international reserves and export receipts will be in US Dollars.

Interest Rate Risk Benchmark

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 %. The share of the entire debt portfolio facing interest rate re-fixing in a year is not expected to be more than 30 %.

Refinancing Risk Benchmark

Refinancing risk is pursued to avoid bunching-up of debt service obligations and, or rollover risk, which may lead to liquidity crisis 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 the 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 9.6 years.

DEBT MANAGEMENT POLICIES FOR 2021

Debt Limits for 2021 covers all external debt both concessional and non-concessional

The debt limits on contracting of new loans remain in force for all Ministries, Departments and Agencies. For the 2021 fiscal year, the debt limits would be extended to both concessional and non-concessional external debt. The details of the projects and limits are presented in Appendix 10 C of the 2021 Budget Statement.

Liability Management Operations

Government will implement 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.

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.

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.

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 3 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.

Implementation of a New primary dealer guidelines and introduction of Bond Market Specialist.

Government will implement the new Primary Dealer guidelines and replace the 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. This would be done by Quarter 2 of 2021. These reforms will help to reveal current inconsistencies between PD rights and obligations and incentivise PDs who want to put more effort into domestic market development.

Communication with Market Participants

Government will continue to actively engage investors and market participants through monthly and quarterly town hall meetings, conference call and investor presentations with PDs and or BMS 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.

Government will also embark on periodic domestic virtual 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.

CONCLUSION

The MTDS for the period 2021-2024 represents a robust framework for prudent debt management, as it provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the 2021 budget. The cost-risk trade-off of alternative borrowing strategies under the MTDS has been evaluated within the medium-term context.

The MTDS, having considered both global and domestic market environment and related vulnerabilities, recommends a shift in the composition of debt towards long-term domestic debt over the medium term.

With the coming into force of the MTDS for the period 2021-2024, the approved MTDS for the period 2020-2023 has been annulled.

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