REPUBLIC OF GHANA

MINISTRY OF FINANCE

UPDATED

2023-2026 MEDIUM-TERM DEBT MANAGEMENT STRATEGY

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

July 2023

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
BOST	-	Bulk Oils Storage Transportation Limited
CAGD	-	Controller and Accountant General’s Department
CF	-	Common Framework
COCOBOD	-	Ghana Cocoa Board
COVID-19	-	Corona Virus Disease 2019
CRAG	-	Credit Rating Agency, Ghana Limited
DCRA	-	Domestic Credit Rating Agency
DDE	-	Domestic Debt Exchange
DDEP	-	Domestic Debt Exchange Programme
DSA	-	Debt Sustainability Analysis
DSSI	-	Debt Service Suspension Initiative
ECF	-	Extended Credit Facility
ECG	-	Electricity Company of Ghana
ESLA	-	Energy Sector Levy Act
FX	-	Foreign Exchange
GDP	-	Gross Domestic Product
GETFUND	-	Ghana Education Trust Fund
GFSDP	-	Ghana Financial Sector Development Project
GIADEC	-	Ghana Integrated Aluminum Development Corporation
GIIF	-	Ghana Infrastructure Investment Fund
GNGC	-	Ghana National Gas Company

GNPC	-	Ghana National Petroleum Corporation
GWCL	-	Ghana Water Company Limited
GRIDCo	-	Ghana Grid Company Limited
IMF	-	International Monetary Fund
IPPs	-	Independent Power Producers
IR	-	Interest Rate
MoF	-	Ministry of Finance
MoU	-	Memorandum of Understanding
MTDS	-	Medium-Term Debt Management Strategy
MTFF	-	Medium-Term Fiscal Framework
OCC	-	Official Creditor Committee
PC-PEG	-	Post-COVID-19 Programme for Economic Growth
PD	-	Primary Dealer
PFM	-	Public Financial Management
SOEs	-	State-Owned Enterprises
ST	-	Short-Term
TDMD	-	Treasury and Debt Management Division
TOR	-	Tema Oil Refinery
USD	-	United States Dollars
VRA	-	Volta River Authority
WB	-	World Bank

Introduction

1. The 2023–2026 Medium-Term Debt Management Strategy (MTDS) has been developed 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 2023-2026 medium-term to mitigate the costs and risks embedded in Government's public debt portfolio.
2. In the aftermath of the ongoing domestic and external debt restructuring, and the IMF-supported programme, Government had to revise its macro-fiscal targets which has also necessitated revisions to the 2023-2026 MTDS.
3. The impact of the ongoing debt restructuring creates the need to carefully manage the fiscal space available to meet Government's funding requirements and make sound budgetary and funding decisions.

Objective and Scope

4. The Public Financial Management law specifies that Ghana's debt management strategy should be based on the debt management objectives and take into account:
    a) the financing needs of Government to be met on a timely basis;
    b) borrowing costs to Government are as low as possible over the medium to long-term, consistent with a prudent degree of risk;
    c) the development of the Ghanaian debt market is promoted; and
    d) any other action considered to impact positively on the public debt is pursued.
5. The MTDS covers public debt, including debt contracted by the Central Government from domestic and external sources, guaranteed debt, and some debt of State-Owned Enterprises (SOEs) and excludes debt owed to the IMF for Balance of Payments (BoP) purposes. The time horizon covered under this strategy is four years, spanning 2023 to 2026.

Performance Review of the MTDS for January to June 2023

6. Government's debt management objective, as embodied in the 2023 MTDS, was to ensure Government's financing requirements were met at the lowest possible cost with a prudent degree of risk in line with the Medium-Term Fiscal Framework (MTFF) and government's debt restructuring programme.
7. The strategy envisaged a restructuring on both domestic and external debt portfolios in 2023 to reduce debt servicing cost. The strategy also focused on building buffers to reduce Government's exposure to volatilities on debt markets and zero-financing from the Bank of Ghana. The strategy

also proposed Treasury bill (T-bill) issuances and optimising concessional funding sources to support the budget.

8. For the period under review, Government issued T-bills amounting to GH¢16,437.27 million (net issuance) and received US$600.0 million from the IMF (being the first disbursement under the Extended Credit Facility) to support the implementation of the 2023 Budget. Government was able to raise US$1,102.5 million from multilateral and bilateral sources to support the Budget.
9. To reduce the growth in public debt and support the reduction in the rate of debt accumulation, no new debt from non-concessional sources has been contracted.
10. The performance of the debt management strategy for the period under review showed improved cost and risk indicators of the existing public debt portfolio. This is mainly due to the implementation of the DDE in 2023, particularly the refinancing risk of the domestic debt portfolio.
11. However, the portfolio is faced with the risk of rollover given that the domestic debt market is focused on the short end, with T-bills of about GH¢50,993.4 million maturing in a year or less.

Table 1: Cost and Risk Indicators of Existing Debt Portfolio (2022 - June 2023)

Risk Indicators		External Debt		Domestic Debt		Total Debt	
		2022 Prov.	June 2023 Prov.	2022 Prov.	June 2023 Prov.	2022 Prov.	June 2023 Prov.
Cost of Debt	Weighted Av. IR (%)	6.9	6.7	21.2	17.2	12.5	10.3
Refinancing Risk	Average Time to Maturity (ATM) – Years	10.5	10.5	2.7	5.5	8.4	9.4
	Debt Maturing in 1 Year (% of Total)	4.8	4.5	45.5	26.6	15.5	9.3
Interest Rate Risk	Average Time to Re-fixing (ATR) – Years	10.0	10.0	2.7	5.4	8.1	9.0
	Debt Re-fixing in 1 Year (% of Total)	15.3	14.7	45.5	31.2	23.2	18.3
	Fixed Rate Debt (% of Total)	87.7	88	100	100	90.9	90.7
FX Risk	FX Debt (% of Total Debt)					60.7	66.1
	ST FX Debt (% of Reserves)					33.8	32.6

Source: MoF

12. The MTDS analysis shows a reduction in the cost of debt. The weighted average interest rate for the total debt portfolio is about 10.3 percent at end-June 2023 from the end-December 2022 rate of 12.5 percent. The reduction in interest rates have been driven by the economic recovery as a result of decline in interest rates and moderation in inflation rate.

13. The domestic debt portfolio shows an improved Average Time to Maturity (ATM) of 5.5 years as at end-June 2023 from 2.7 years in 2022. The ATM of the total debt portfolio as at end-June 2023 is 9.4 years. However, the level of debt maturing in a year as a percentage of the total debt stock has improved to 9.3 percent as at end-June 2023 from 15.5 percent in 2022. The performance for both external and domestic debt stock maturing in one year witnessed significant reduction as seen in Table 1. This is as a result of the DDEP and not contracting new external non-concessional debt.
14. On the interest rate risk, the Average Time to Re-fixing (ATR) of the debt portfolio improved. About 14.7 percent of external debt will be re-fixed within one year. For domestic debt, the ATR is 5.4 years, whereas about 31.2 percent of the portfolio will be re-fixed within a year.
15. About 57.1 percent of the debt portfolio is external, with 71.1 percent being denominated in the USD.

Baseline Macroeconomic Assumptions for 2023-2026

16. The 2023-2026 MTDS is underpinned by the following revised macroeconomic targets set for the 2023-2026 medium-term:
    - Average overall Real GDP growth of 3.5 percent;
    - Average non-oil Real GDP growth of 3.4 percent;
    - End-period inflation to be within the target band of 8±2 percent;
    - Fiscal deficit to average 4.5 percent of GDP;
    - Primary balance on commitment basis to average a surplus of 0.7 percent of GDP; and
    - Stock of Gross International Reserves to cover at least 4 months of imports of goods and services.
17. Based on the overall medium-term macroeconomic objectives and targets, specific revised macroeconomic targets for the 2023 fiscal year are set as follows:
    - Overall Real GDP growth of 1.5 percent;
    - Non-Oil Real GDP growth of 1.5 percent;
    - End-period inflation of 31.3 percent;
    - Fiscal deficit of 6.4 percent of GDP;
    - Primary balance on commitment basis of a deficit of 0.5 percent of GDP; and

- Stock of Gross International Reserves to cover not less than 0.8 months of imports of goods and services.

18. Provisional macroeconomic data, upon which the updated 2023 MTDS was formulated, are presented as follows:

Table 2: Macroeconomic Assumptions

Indicator	2023 Budget	2023 Revised Budget
	In millions of GH₵	
Nominal GDP	800,921	854,834
Revenue & Grants	143,956	134,913
Expenditure	205,432	189,864
o/w Interest Payments	52,550	44,866
Primary fiscal balance (commitment)	5,510	-4,085
Overall fiscal balance (cash)	-61,391	-54,951
Gross International Reserves (in billions of USD)	5.4	5.4
GDP at constant prices	2.8	1.5
Real GDP (Non-oil)	3.0	1.5
Revenue	18.0	15.8
Expenditure	25.6	22.2
Interest Expenditure	6.6	5.2
Primary fiscal balance (commitment)	0.7	-47.8
Overall fiscal balance (cash)	-7.7	-6.4

Source: MoF

Financing Strategy

19. The updated 2023 debt strategy focuses on an appropriate financing mix to mitigate the embedded 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.

20. The financing strategy for the remaining half of 2023 best responds to Government's intent to reduce the fragmentation in the domestic debt market by consolidating existing bonds tendered

for the DDEP. It also seeks to continue the implementation of policies and reforms to restore market confidence.

21. The strategy envisages the continuous issuances of T-bills and zero financing from the Bank of Ghana.
22. It further seeks to propose a preferred external borrowing on concessional terms from multilateral and bilateral development partners.

Foreign Currency Risk Benchmark

23. For external debt portfolio, a strategic benchmark of 70±5 percent exposure to the US Dollar will be maintained since significant portions of Ghana's international reserves and export receipts are in US Dollars.

Interest Rate Risk Benchmark

24. The current interest rate resetting in a year in the domestic debt portfolio poses eminent interest rate risk for the debt portfolio due to investors' preference for shorter-dated securities. Over the medium-term, the percentage of marketable domestic debt to be re-fixed within a year is expected to be within the range of 30-35 percent. The share of debt maturing in one year in the portfolio is expected to be within the range of 15±5 percent.

Refinancing Risk Benchmark

25. To reduce refinancing or rollover risk due to the use of T-bills for treasury and cash management purposes, the share of T-bills in the total public debt stock is expected to be within 15-20 percent for prudent treasury management purposes.
26. Furthermore, debt maturing in one year (netting off T-bills) is expected to be 15±5 percent of the total domestic debt stock. The ATM of the debt portfolio is expected to be not less than 8 years.

Debt Management Policies

Debt Limits on External Borrowing

27. As part of Government efforts to bring debt to sustainable levels, Government has placed annual ceilings of present value of US$66.2 million on newly contracted or guaranteed non-concessional external debt by central government and public entities cumulative from January 2023. In addition, Government has placed a zero ceiling on any collateralised debt over revenue streams

or other assets for all MDAs and SOEs[1]. To ease fiscal pressures and provide space for economic recovery and growth, all SOEs are required by the provisions of the PFM law to seek prior approval by the MoF on all new borrowings.

Charging Risk-Based Fees

28. As part of the implementation of the Fees and Charges Act, 2022 (Act 1080), covered entities are required to pay an upfront fee and a non-refundable charge when requiring support from Government with respect to Guarantees, On-lending facilities, or “No-Objection” to borrow on their own books. This is in line with measures to mitigate fiscal risk to Government.

Development of the Domestic Debt Market

29. As T-bills were excluded in the DDEP, Government will continue to actively engage investors at the short end of the debt market to maintain a functional short-term domestic debt market until the bond market is restored. It is envisioned that Government will continue progress in implementing the reform agenda to restore confidence to the domestic debt market.

Annual Borrowing Plan

30. Government will update and publish an Annual Borrowing Plan (ABP), consistent with Section 60 of the 2016 PFM Law, to meet the aggregate borrowing requirements for the remaining half of 2023. The borrowing plan will be consistent with the debt operation programme and propose building buffers to reduce Government’s exposure to volatilities on debt markets.

Engagements with Investor and Market Participants

31. Government will continue to actively engage investors and market participants through regular town hall meetings, conference calls, and investor presentations with PDs and key market players.

[1] *Public entities comprise of (i)TOR; (ii)GNPC;(iii) GNGC; (iv) VRA; (v) ECG;(vi) GRIDCo;(vii) GWCL;(viii) GIIF;(ix) GETFUND/Daakye; (x) ESLA PLC; (xi)Road Fund; (xii)MIF/Ashanti Gold Corporation; (xiii)COCOBOD (excluding annual syndicated trade financing facility); (xiv) GIADEC; and (xv)BOST.*

The Ministry is committed to providing access to information on borrowing as well as public debt data to improve communication with investors and the general public.

Establishment of a Domestic Credit Rating Agency (DCRA) in Ghana

32. The establishment of a Domestic Credit Rating Agency (DCRA) in Ghana is to reduce information asymmetry between market participants, promote credit culture, risk-based lending, and equitable pricing of debt instruments and is near completion. This will further strengthen the financial ecosystem and provide adequate credit to support businesses.
33. The CRA has been registered under the Companies Act, 2019 (992) under the name Credit Rating Agency, Ghana Limited, (CRAG). To make the CRAG sustainable, the Ghana Stock Exchange, National Insurance Commission, and National Pensions and Regulatory Authority have signed up for shares of 50 percent, 25 percent, and 25 percent respectively.
34. The CRAG has obtained a provisional license from the Securities and Exchange Commission whiles the CRAG Implementation Committee works to meet other requirements for a full license.
35. The World Bank through the Ghana Financial Sector Development Project (GFSDP) is supporting the recruitment of a Technical Advisory Firm (from a reputable rating agency) to support the operationalization of the CRAG. It will also help with market-wide sensitization workshop for all relevant stakeholders. The CRAG is expected to be launched in 2023.

Conclusion

36. The updated 2023-2026 MTDS, having considered the impact of debt restructuring programme, 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 an updated DSA which is concerned with long-term sustainability of debt and the DDEP.
37. With the coming into force of the updated MTDS for the period 2023-2026, the approved pre-Debt Restructuring 2023- 2026 MTDS has been annulled.

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