REPUBLIC OF GHANA

MINISTRY OF FINANCE

2019 ANNUAL BORROWING AND RECOVERY PLAN (ABRP)

A publication by the Ministry of Finance

In Fulfilment of the Requirements of Section 60 of the Public Financial Management Act, 2016 (Act 921)

March, 2019

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Abbreviations and Acronyms

ABRP	-	Annual Borrowing and Recovery Plan
BoG	-	Bank of Ghana
CNY	-	Chinese Yuan Renminbi
DSA	-	Debt Sustainability Analysis
FX	-	Foreign Exchange
GIIF	-	Ghana Infrastructure Investment Fund
JBRs	-	Joint Book Runners
MoF	-	Ministry of Finance
MTDS	-	Medium Term Debt Management Strategy
PDs	-	Primary Dealers
PFM	-	Public Financial Management
PPP	-	Public Private Partnership
TDMD	-	Treasury and Debt Management Division

Foreword

The Ministry of Finance is committed to ensuring transparency, accountability and predictability of Government's borrowing operations.

Consistent with this commitment, we prepared and published the 2019 Medium Term Debt Strategy (MTDS), during the 2018 fiscal year. It was the first time the Ministry published the strategy ahead of the period of implementation.

We are deepening this commitment further by publishing the 2019 Annual Borrowing and Recovery Plan (ABRP) for the first time in Ghana's history.

The plan consists of the financing requirement of the 2019 budget, the strategy for financing under the MTDS and the ceilings for non-concessional borrowing based on the latest Debt Sustainability Analysis (DSA).

We do believe that the recent passage of the Fiscal Responsibility law, as well as the newly constituted Fiscal Council and Financial Stability Council, will contribute to Ghana's drive towards 'Ghana Beyond Aid'.

This maiden Annual Borrowing and Recovery Plan, the first in the series and in fulfillment of Section 60 of the PFM law, is one of the major initiatives to ensure responsible borrowing and transparency to the markets.

The preparation of the plan benefited significantly from the contributions of the management of the Ministry, especially, the Hon. Deputy Minister responsible for Finance. The Chief Director of the Ministry, Director and Staff of the newly created Treasury and Debt Division were instrumental in preparing the document and engaging major stakeholders on the contents of the plan. The valuable contributions of the Controller and Account-General's Department, Bank of Ghana and Technical Assistance from the IMF are duly recognized.

We do hope that the contents would be of significant benefit to our cherished investor community and the general public.

God Bless!

Ken Ofori-Atta
Minister for Finance

I: Introduction

Background

1. In accordance with the 1992 Constitution and the Public Financial Management Act, 2016 (Act 921), the annual budget statement is presented and approved in Parliament. A major outcome of the budget operation is the balance of expenditure over revenue. When this is in a deficit, it has to be financed through domestic and/or external sources. The financing also comes in the form of loans, securities (bills & bonds), divestiture, income generated from government's investment assets, and balances brought forward from other revenue accounts. The borrowing activities, therefore, supports the financing requirement of the government for the budget. This is the basis for the preparation of the Annual Borrowing and Recovery Plan.
2. In December 2018, Parliament approved the Appropriation for the 2019 Budget Statement and Economic Policy of the Government. The 2019 Annual Borrowing and Recovery Plan is prepared in the context of the Budget Statement and Economic Policy of Government of Ghana and the Medium Term Debt Strategy (MTDS) for the period spanning 2019-2022[1].
3. The Plan is published in fulfilment of Section 60 of the Public Financial Management Act, 2016 (Act 921) which requires the Treasury and Debt Management Office of the Ministry of Finance to prepare and publish an Annual Borrowing and Recovery Plan. The Plan sets out the borrowing operations of Government envisioned to take place over the year, the borrowing instruments to be used, and the indicative timing of such borrowings. This is also consistent with the cash flow requirement for the year.
4. This Plan fulfils the objectives of debt management in Ghana by:
   - ensuring that the financing needs of Government are met on a timely basis;
   - lowering the cost of borrowing to Government over the short, medium to long term, consistent with a prudent degree of risk;
   - promoting the development of the domestic debt market; and
   - pursuing any other action considered to positively impact on public debt.
5. Following from this introductory statement, the rest of the plan will summarise the MTDS, express the financing requirements of government, outline the strategies envisioned to meet the financing requirements, as well as government's plans for deepening communication with the investor and the general public.

[1] *The 2019 MTDS is published on the MoF website - www.mofep.gov.gh*

II: Summary Of The Medium Term Debt Strategy

6. In 2017, Government introduced a policy of re-profiling maturing domestic debt, with a special focus on refinancing maturing T-bills with longer-term bonds.
7. This subsequently reduced the refinancing and rollover risks embedded in the portfolio, together with the associated cost of interest.
8. Government succeeded in lengthening the average maturity of the domestic debt portfolio to 7.2 years at end-2017 from 5.5 years in 2016. Provisional information as at end September 2018 indicates a further extension to 7.8 years.
9. This increased the average term to maturity and reduced the share of the debt portfolio falling due within 1 year to 29.2% as at September 2018 from 54.5% in 2016.
10. Government issued, for the first time in Ghana, the longest termed bond of 15 years in 2017 with callable options. The yield curve has also been extended from 7 years to 15 years and bonds with maturities of 3 to 15 years at issue now comprise about 64% and 62% of the total stock in 2017 and 2018, respectively, compared to 36% in 2016.
11. The re-profiling exercise also successfully transformed the composition of the domestic debt stock in favour of long term bonds and reduced the (weighted) average cost of domestic debt from 20% in 2016 to 17.4% in 2017, and further 16.4% as at end of September 2018.

III: Financing Requirements for 2019

The 2019 Budget Deficit and Financing Options

12. Arising from the approved Total Revenue and Grants; and Total Expenditure, the 2019 fiscal operations gives an overall budget deficit of GH¢14,535.90 million, equivalent to 4.2 percent of GDP.
13. The financing is expected to be obtained from domestic and external funding sources, disbursements on existing loans and new loans, and other receipts.
14. Net foreign financing of GH¢9,748.10 million is envisaged from external sources. It comprises disbursements on existing project and programme loans by official creditors and commercial external borrowing, and US$2.00 billion of the total proceeds from sovereign bond programme issuance which excludes amortisation of external principal loans / Contingent liabilities due for payments.
15. The balance of net financing of GH¢4,401.78 million is expected from the domestic sources. It comprises of the change in net credit by the banking system, plus the net change in holdings of government securities by the nonbank sector.
16. Other financing items include expected inflows from the monetisation of mineral royalties, amounting to GH¢1,418.95 million.

17. The Ghana petroleum fund allocation of GH¢1,032.92 million goes to the stabilisation and heritage funds.

18. Transfer from the stabilisation fund for liability management and other debt repayments amounts to GH¢723.05 million.

Table 1: 2019 Financing of Government of Ghana Fiscal Operations

1.0	**Financing**	**14,535,903,869**
1.1	**Net Foreign financing**	**9,748,095,294**
1.1.1	Borrowing	15,079,160,401
1.1.1.1	Project Loans	4,256,660,401
1.1.1.3	Programme Loans	1,202,500,000
1.1.1.3	Sovereign Bond	9,620,000,000
1.1.2	External Amortisation (due)	-5,331,065,107
1.2	**Net Domestic financing**	**4,401,784,840**
1.2.1	Banking	2,665,403,798
1.2.2	Non-banks	1,736,381,042
1.3	**Other Financing**	**1,418,950,463**
1.3.1	Other Programme Financing	1,443,000,000
1.3.2	Other Domestic Financing	-24,049,537
1.4	**Ghana Petroleum Funds**	**-309,878,019**
1.4.1	Transfer to Ghana Petroleum Funds	-1,032,926,729
1.4.1.1	o/w Stabilisation Fund	-723,048,710
1.4.1.2	o/w Heritage Fund	-309,878,019
1.4.2	Transfer from Stabilisation Fund	723,048,710
1.5	**Sinking Fund**	**-723,048,710**

2019 Gross Financing Requirement

19. The gross financing requirement comprises all the flows from domestic and foreign debt and the redemptions of domestic securities. It excludes the other financing items that are not debt or have no implications on the debt stock.

External Debt Ceilings

20. Based on the 2019 Debt Sustainability Analysis, significant efforts have been made in improving the solvency ratio indicators. Further to this, the liquidity ratios would be improved with the passage of the Fiscal Responsibility Law which caps the budget deficit as a ratio of GDP and also sets a positive primary balance as a ratio of GDP. This development would impact positively on debt dynamics.

21. Consistent with this, Government has set two ceilings for external non-concessional borrowings. The first ceiling is a maximum cap of US$3.00 billion for the Sovereign Bond

Programme. This would cover the regular Eurobond issuance, century bond, green bond, panda bonds, samurai bonds and any other bank loans or bridge financing arrangements.

22. The second ceiling is a cap on external non-concessional loans for projects of up to US$750.00 million.

23. The details of the activities under the ceilings are enumerated below.

Borrowing from External Sources

24. This Plan sets out, in detail, the government's approach to meeting the financing requirement through external sources: Government will access the International Capital Market to issue a sovereign bond programme in 2019. The proceeds from the planned sovereign bond issuance is expected to be used to finance the 2019 budget and for liability management.

25. Consistent with the DSA ceilings, Government sought for approval from both Cabinet and Parliament to raise Sovereign bonds of up to **US$3.00 billion**.

26. Sovereign Bond Issuance Programme is made up of the regular Eurobond, Century bonds, Green bonds, Samurai bonds, Panda bonds and commercial loans, depending on market conditions.

27. It must be noted again that the US$3.00 billion is the ceiling for external non-concessional bond market issuance.

28. In addition to this, the Budget Statement also placed a second ceiling on contracting of new loans for project financing, limit of US$750.00 million. This was captured in Appendix 10C of the 2019 Budget Statement and Economic Policy of Government.

29. The details of the proposed projects are listed as follows;

Table 2: List of 2019-2020 Pipeline Projects to be Financed from Non-Concessional Borrowings

SRN	PROJECT TITLE	MDA	POLICY OBJECTIVE
1	Design, Supply and Installation of 50 Small and Medium Steel Bridges	Ministry of Roads and Highways	Provide improved access to transport agricultural produce and inputs and make areas accessible. The project will also increase economic activities in affected areas and help alleviate rural poverty.
2	Supply of agricultural tractors	Ministry of Food and Agriculture	The policy goal of this project is to strengthen the Agricultural Mechanization Service Enterprise Centers (AMSECs) with the view to improving agricultural productivity and invariably increase the incomes of smallholder farmers and create decent jobs for the youth.
3	Construction of National Vocational Training Institutes project by Planet Core	Ministry of Education	The development objective of the project is to improve the employability of Ghanaians, particularly the youth, by providing them with the relevant skills and competencies for self and formal employment. This is with the view not only to help reduce unemployment among the youth but also to encourage indigenous entrepreneurship and further provide Ghanaian industries with the requisite manpower to make them globally competitive.
4	Expansion and rehabilitation Keta Water Supply project	Ministry of Sanitation and Water Resources	The policy objective is to improve access to potable water, particularly in the highly deprived areas and reduce the prevalence of water borne diseases.
5	Expansion and rehabilitation Tamale Water Supply project	Ministry of Sanitation and Water Resources	The policy objective is to improve access to potable water, particularly in the highly deprived areas and reduce prevalence of water-borne diseases.
6	Construction of pedestrian bridges at various location in Accra	Ministry of Roads and Highways	To safeguard pedestrian safety given that the Highway passes through an urban settlement.
7	Construction of Aflao Toll Road phase 1	Ministry of Roads and Highways	The objective of the project is to promote regional integration as well as contribute towards the Government's goal of poverty reduction and economic development by reducing the travel time and vehicle operating cost, resulting in reduced road user costs for both passengers and freight.
8	Completion of Anokye Teaching Hospital-Maternity Block	Ministry of Health	It is in fulfilment of the government's commitment to enhance health care infrastructure to provide universal healthcare services to all citizens in Ghana.
9	Construction of a bridge across the Volta to Afram Plains	Ministry of Roads and Highways	This is to make Afram Plains accessible, increase economic activities especially food production and improve on the livelihood of communities in the area.
10	Implementation Self Help Electrification Programme in 5 regions	Ministry of Energy	A major objective of the Government's poverty reduction and growth agenda is the extension of electricity infrastructure to support the operation of productive ventures, social projects and activities, especially in the rural areas. The vehicle for attaining this objective is the National Electrification Scheme (NES).
12	Completion of housing project at various stages of completion	Ministry of Works and Housing	Current data indicates that the country's housing deficit stands at about 1.7 million housing units. This huge deficit partly explains the high Real Estate market prices, high rental costs and huge advance rent demands by Landlords.
13	Rehabilitation and expansion of Shama and La General Polyclinics and other District hospitals	Ministry of Health	It is in fulfilment of the government's commitment to enhance health care infrastructure and provide universal healthcare services to all citizens in Ghana.
14	Construction of Military Housing project	Ministry of Defence	Current data indicates that the country's housing deficit stands at about 1.7 million housing units. This huge deficit partly explains the high Real Estate market prices, high rental costs and huge advance rent demands by Landlords.
15	Kumasi International Airport Expansion phase-Additional financing	Ministry of Aviation	To complement the multi-modal transport system and also to facilitate trade in the middle and northern belts of the country. The project also seeks to improve on the aviation infrastructure to boost the development of the aviation sector.

SRN	PROJECT TITLE	MDA	POLICY OBJECTIVE
16	Accra traffic intelligence project	Ministry of Roads and Highways	To improve transport infrastructure and reduce traffic congestion in the Greater Accra area, enhance safety for pedestrians, and promote urban renewal.
17	Construction of 11 Landing fishing sites	Ministry of Fisheries and Aquaculture	Agricultural Services Sector Investment Programme (AGSSIP) aims to develop and support the necessary institutional arrangements that leads to the establishment of a well-organized Fisheries Management Systems.
18	Wenchi Water project	Ministry of Sanitation and Water Resources	The policy objective is to improve access to potable water, particularly in the highly deprived areas and reduce prevalence of water borne diseases.
19	Techiman water project	Ministry of Sanitation and Water Resources	The policy objective is to improve access to potable water, particularly in the highly deprived areas and reduce prevalence of water borne diseases.
20	Supply of milling equipment	Ministry of Food and Agriculture	To preserve and add value to maize and other cereals. This will reduce post-harvest losses and provide food security during lean periods.
21	Takoradi Market Modernisation	Ministry of Local Government and Rural Dev't	To improve on the state of infrastructure and livelihood of people at the district level.

Borrowing from the Domestic Market

30. The Government of Ghana and the Bank of Ghana have signed a Memorandum of Understanding with the Bank of Ghana, which requires zero-financing of Government operations by the Bank. Consequently, the Government has had to build buffers for cash management purposes. In 2019, it is envisaged that at least GH¢1.00 billion would be used as a cash buffer for Government's cash management operations.

31. In addition, Government would ensure that, to forestall any financing imbalances, any contingent liability that hits the cash flow would be securitised or cash payments made as and when the liquidity position makes it possible to do so.

32. In line with the debt management objective of developing the domestic debt market, the government in 2019 plans to issue a range of instruments (securities) of different tenor as follows:

Short-term securities:	91, 182 and 364[2] day Treasury Bills
Medium-term securities:	2-year Notes, 3—7 year Bonds, and
Long-term securities:	10-year Bonds and beyond.

33. Primary issuance of medium and long-term securities is open to resident and non-resident investors, while for short-term issuances, participation is open to domestic investors only. Issuances of domestic securities will be done in Ghanaian Cedi.

[2] *In place of the existing 1-Year Note*

Short Term bill issuance

34. The Ministry will issue 91-day and 182-day Treasury Bills on a weekly basis. In addition, the 1-year note has been replaced with a 364-day Treasury Bill which will be issued on a bi-weekly basis on the first and third weeks of each month. These instruments will be issued through an auction process on each Friday with settlement date being T+1[3].

Medium Term issuance

35. The 2-year Note will be issued through the book-building process and will be carried out on the second week of each month with the settlement being T+2[4]. Additionally, 3-year to 7-year instruments will also be issued through the book-building process based on market conditions. These instruments will, however, be issued on Thursdays with settlement date being T+2.

Long Term issuance

36. Government plans to deepen its activities in the longer-end of the market. In this regard, the Government proposes to issue new 10-year and 15-year bonds in 2019 based on market conditions and investor appetite. These instruments will be issued on Thursdays through the book-building process based on market conditions, with settlement date being T+2.

37. The specific dates of the bond issuance will be announced in the quarterly issuance calendar, to be published a minimum of two weeks in advance of the quarter to which it pertains.

38. In the event that the issuance day is a national holiday, the preceding business day will be the effective day of issuance which will be published prior to the issue.

39. As part of government's debt management strategy, existing securities may be reopened or tapped at key maturities to build benchmark bonds to enhance liquidity in the secondary market.

[3] *T+1 refers to the Transaction day plus one working day*
[4] *T+2 refers to the Transaction day plus two working days*

IV: Primary and Secondary Markets for Government Domestic Securities

Primary Dealers system

40. Thirteen (13) Primary Dealers (PDs) currently drive the primary market of Government securities. Per the PD Guidelines, PDs have exclusive rights of access to an auction of Government securities where they buy the securities on wholesale and may sell to their clients through the secondary market.

41. PDs are also expected to participate actively in the secondary market trading of Government securities to help develop a vibrant domestic bond market.

42. Treasury Bills are issued through competitive and non-competitive bidding at a multiple-price allotment. Notes and Bonds are, however, issued on a uniform allotment.

Reforms to Primary Market Issuances

43. In 2019, Government will carry out some reforms in the primary dealer system as part of efforts to develop the market. Some of the reform actions include:

    - Revision of the PD guidelines to ensure that PD obligations and privileges are well balanced, feasible and enforceable. Government will provide stronger oversight over PD's support to the secondary market and enforce strictly, all measures outlined in the guidelines;
    - Reduction of PDs from 13 to 11 based on performance in 2018; and
    - Replacement of the Joint Book Runners (JBRs) with a Bond Market Specialist group under much stricter rules, requirements and obligations with regardsto marketing, selling, distribution and trading of Government bonds.

Secondary Market Trading of Government Securities

44. Government plans to introduce classic Repurchase Agreements (Repos) to improve liquidity in the secondary market. This supports development of the debt market as it facilitates short-selling and market making activities of Primary Dealers (PDs), promotes market activity by utilizing the collateral and creates a more continuous yield curve.

45. A Repo makes it possible for government to lend a newly created security to relieve a short position of a market maker or remove a distortion if a particular bond is "squeezed" by a market participant, who holds a large proportion of the bond and is unwilling to lend it out. In these instances, government may charge a slight penal rate to give the market a chance for self-correction.

46. Repos also help to smoothen cash flows across a Treasury Single Account (TSA), which enables government to operate with a lower cash balance and reduce net interest cost. Repos reduces the risk of auction failures, as PDs use them as a mechanism for financing their positions.

V: Liability Management Operations

47. The Government will continue its liability management operations to ensure a well-structured and smoothen debt portfolio.

48. Government plans to collaborate with the Bank of Ghana to manage foreign exchange (FX) risk associated reparation of offshore flows using a bond buy-back of existing debt and the exchange of Government securities of varied characteristics. In the event of such operations, the Government will seek feedback from investors and PDs, and will promptly inform the market of such operations.

49. The Government may also resort to the use of cash buffers to mitigate short-term financing challenges in the course of the fiscal year.

VI: Communication Plan

50. The 2019 Annual Borrowing and Recovery Plan is published following the approvals of the 2019 Budget Statement and Economic Policy of Government and the MTDS (2019-2022).

51. The Government will publish a Quarterly Issuance Calendar, which will be updated monthly, on a rolling basis, to reflect a full quarter financing programme. The Issuance Calendar sets out the timing and target for each issuance.

52. In addition, quarterly Town hall meetings, Investor calls, investor education, as well as regular meetings with PDs and Joint Book Runners will be held to brief stakeholders on developments on the economy, government policy directions for the financial sector as well as on regulatory regime changes.

53. Bank of Ghana (BoG) will, on a weekly basis, publish the auction results as well as the targets for the ensuing week.

VII: Revisions

54. In line with PFM law, the Annual Borrowing and Recovery Plan may be revised and published in the event of material changes pertaining to any of the following:

    - review of the Budget Statement and Economic Policy and/or the MTDS; and
    - significant changes in macroeconomic outlook and market conditions.

VIII: Debt Recovery Plan

55. The Government acknowledges that a number of sovereign guarantees and on-lent facilities have not been paid by beneficiaries in both the private and the public sectors. Government will do a complete assessment of these loans and make appropriate recommendations to Cabinet and Parliament for their consideration.

IX: Conclusion

56. The Borrowing and Recovery Plan for 2019 is expected to operationalize identifiable strategies enshrined in the MTDS and the national Budget Statement and Economic Policy. This Borrowing and Recovery Plan takes effect on 1st January, 2019 and elapses on 31st December, 2019.

REPUBLIC OF GHANA

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