REPUBLIC OF GHANA

MINISTRY OF FINANCE

2023-2026 MEDIUM-TERM DEBT MANAGEMENT STRATEGY

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

December 2022

Contents

Abbreviations

ABP	-	Annual Borrowing Plan
ATM	-	Average Time to Maturity
ATR	-	Average Time to Re-fixing
BoP	-	Balance of Payments
BMS	-	Bond Market Specialists
COVID-19	-	Corona Virus Disease 2019
DDEP	-	Domestic Debt Exchange Programme
DSA	-	Debt Sustainability Analysis
FX	-	Foreign Exchange
GDP	-	Gross Domestic Product
ICM	-	International Capital Market
IMF	-	International Monetary Fund
IR	-	Interest Rate
MDA	-	Ministries, Departments and
MoF	-	Ministry of Finance
MTDS	-	Medium-Term Debt Management Strategy
MTFF	-	Medium-Term Fiscal Framework
PC-PEG	-	Post-COVID-19 Programme for Economic Growth
PD	-	Primary Dealer
PFM	-	Public Financial Management
SDR	-	Special Drawing Rights
SOEs	-	State-Owned Enterprises
ST	-	Short-Term
TDMD	-	Treasury and Debt Management Division
USD	-	United States Dollars

Foreword

This annual publication is the seventh since the implementation of the Public Financial Management Law in 2017.

The Medium-Term Debt Management Strategy (MTDS) expresses Government's desire and commitment to proactively manage Ghana's public debt within an environment of increased accountability and transparency.

Global and domestic economic activity in the year 2022 slowed down more broadly and sharply than anticipated, triggering a series of events that have led to serious economic challenges, as investor confidence hit a new low. This subsequently manifested in sovereign credit rating downgrades, resulting in the closure of Ghana's access to the International Capital Market (ICM), tightening of domestic financing conditions, as well as increased cost of borrowing. The combined effects of these external and domestic developments contributed to the rapid depreciation of the cedi and compounded the debt service burden of Government. The cedi depreciated cumulative by 30.0 percent at end-December 2022 against the US Dollar compared to 4.1 percent depreciation at end-December 2021.

Consequently, these macroeconomic developments have had an adverse effect on the implementation of Government financing strategy for 2022. Government continued to experience uncovered auctions on account of liquidity challenges and resorted to financing the budget through tap-ins and re-openings of existing medium-term instruments from the domestic debt market. This resulted in a deterioration in the cost and risk indicators of the public debt portfolio.

Government has prepared the Post-COVID-19 Programme for Economic Growth (PC-PEG) as the blueprint to address the economic challenges Ghana is currently experiencing. The key objectives of the PC-PEG are to, among others: restore fiscal and debt sustainability, as well as minimise fiscal risks including risks from contingent liabilities from SOEs; deepen structural reforms; improve our sovereign credit ratings; restore investor confidence, regain market access and unlock other financing sources; and build buffers to strengthen resilience to economic shocks.

To achieve these, there are three (3) critical requirements, namely: successfully negotiating a strong International Monetary Fund (IMF)-supported programme; coordinating an equitable debt operation programme; and attracting significant green investments. This will help to generate substantial revenue, create the much-needed fiscal space for the provision of essential public services, and facilitate the implementation of the PC-PEG programme to revitalise and transform the Ghanaian economy.

The Domestic Debt Exchange (DDE) programme, a debt operation programme, was launched on 5th December, 2022 and is expected to be settled in the first quarter of 2023. The DDEP seeks to bring public debt back on a sustainable path.

Clearly, public debt sustainability is dependent on Government's commitment to achieving fiscal consolidation and macroeconomic stability. To support public debt sustainability, the 2023-2026 MTDS re-emphasises the need to step up reforms in the domestic debt market and seeks to optimise concessional funding sources and reduce refinancing risk in the domestic market through the DDE programme.

The 2023-2026 MTDS over the medium-term is strongly hinged on returning to sustainable debt levels and improving the economy's resilience to external shocks. The strategy is aligned to the external Debt Limit Policy for countries with elevated debt burdens under the IMF programme. A major objective of the programme is to place the ratio of public debt to Gross Domestic Product (GDP) firmly on a downward trajectory through adherence to a comprehensive and credible debt management strategy. In July 2023, the debt management strategy will be reviewed to include an explicit assessment of the cost-risk trade off.

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 successfully overcome all the challenges we were confronted with.

God Bless!!!

Ken Ofori-Atta

Minister for Finance

Introduction

1. Prevailing international and domestic economic conditions in the year 2022 posed challenges to the successful implementation of the 2022 Debt Management Strategy. The factors contributing to this include: surge in inflation and increasing interest rates; exchange rate depreciation; need for additional financing to fund a higher-than-programmed fiscal deficit; increasing world oil and commodity prices; loss of external financial market access; and sovereign credit rating downgrades.
2. Despite these challenges, Government was able to raise a US$750.0 million Afrexim Facility to support the implementation of the 2022 Budget Statement and Economic Policy. Some factors, however, further limited the achievement of the strategy, including: increasing domestic market interest rates and market preference for shorter-dated government securities; sharp depreciation of the cedi; and monetary policy rate hikes, among others. These developments led to liquidity challenges in the domestic primary debt market, resulting in higher cost of financing in 2022.
3. Following an assessment of the impact of the global economic crisis on the operations of the Central Government and on debt operations in Ghana, Government took a strategic decision during the third quarter of 2022 to rollout the Domestic Debt Exchange Programme (DDEP) as part of a comprehensive programme to restore debt and fiscal sustainability. The DDEP is an integral component of Government's economic programme, and the successful completion of this domestic debt exchange is a critical component of both the debt reduction programme and the IMF programme aimed at restoring fiscal sustainability.
4. The 2023–2026 Medium-Term Debt Management Strategy (MTDS) has been prepared in fulfilment of Section 59 of the Public Financial Management (PFM) 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 the Government's public debt portfolio.

Objective and Scope

5. The PFM Act outlines Ghana's debt management objectives as follows. These 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, 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.

6. 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 IMF for Balance of Payments (BoP) purposes. The time horizon covered under this strategy is four years, spanning 2023 to 2026.

Performance Review of MTDS for 2022

7. Government's debt management objective, as embodied in the 2022 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).
8. The strategy sought to reduce the stock of short-term domestic debt and re-profile external commercial debt to mitigate risks in the portfolio. The strategy also focused on deepening the domestic debt market by lengthening the maturity structure through issuing medium to long-term Treasury bonds to build benchmarks bonds.
9. The strategy envisaged issuances/reopens of medium to long-term instruments as well as planned issuances of Treasury bills for liquidity and cash management purposes. The strategy also envisaged disbursements of project and programme loans from external sources.
10. The global and domestic macroeconomic developments in 2022 had adverse effects on the implementation of Government's financing strategy. Government encountered numerous uncovered auctions as a result of liquidity challenges but succeeded in financing the budget through tap-ins and re-openings on existing medium-term instruments in the domestic debt market. Government also successfully raised a US$750.0 million Afrexim Facility to support the implementation of the 2022 Budget.
11. The performance of the debt management strategy in 2022 witnessed a worsening of cost and risk indicators of the public debt portfolio. The weighted average interest rate of the domestic debt portfolio at end-December 2022 was 21.2 percent, an increase from the end-December 2021 rate of 17.9 percent, with the weighted average interest rate for the external debt portfolio also increasing from 5.2 percent in 2021 to 6.1 percent at end-December 2022.
12. The proportion of domestic debt maturing in one (1) year increased from 30.5 percent to 45.5 percent over the same period, mainly owing to underperformance of Government revenue which led to Government resorting to tap-ins and re-openings at the shorter end of the market. This resulted in higher domestic short-term financing and increased refinancing risk as shown in Table 1.

13. As a result, the current redemption profile of Ghana's public debt portfolio indicates that a large share of the domestic debt will be maturing in 2023, reflecting the refinancing risks associated with this type of debt.
14. Interest rates for both the domestic and external debt portfolios also increased. Government's external debt, on average, was subject to changes in interest rates at shorter intervals. This is largely on account of an increase in the volume of variable rate loans, particularly from commercial lenders. For the domestic debt portfolio, the change in the average time to interest re-fixing was largely on account of re-openings of existing treasury bonds because of liquidity challenges experienced in the year.
15. The share of debt denominated in foreign currency and the ratio of short-term foreign currency debt to foreign currency reserves are key measures of exchange rate risk. Both indicators increased in 2022. The share of foreign currency debt in the total public debt portfolio increased from 51.3 percent in 2021 to 60.4 percent at end-December 2022, depicting increased exposure to movements in the exchange rate, with the cedi cumulatively depreciating against the US dollar by 30.0 percent at the end of December 2022

Table 1: Cost and Risk Indicators of Existing Debt Portfolio (2020 - 2022)

Risk Indicators		External Debt			Domestic Debt			Total Debt		
		2020	2021	2022 Prov.	2020	2021	2022 Prov.	2020	2021	2022 Prov.
Cost of Debt	Weighted Av. IR (%)	5.0	5.2	6.1	18.3	17.9	21.2	11.5	11.3	12.1
Refinancing Risk	Average Time to Maturity (ATM) – Years	12.7	14.8	10.5	3.3	3.2	2.7	9.2	10.6	8.4
	Debt Maturing in 1 Year (% of Total)	3.5	3.1	5.0	34.9	30.5	45.5	15.1	13.1	15.7
Interest Rate Risk	Average Time to Re-fixing (ATR) – Years	12.4	14.4	10.0	3.3	3.2	2.7	9.0	10.3	8.1
	Debt Re-fixing in 1 Year (% of Total)	11.4	13.0	15.0	34.9	30.5	45.5	20.1	19.4	23.0
	Fixed Rate Debt (% of Total)	90.1	88.7	88.3	100.0	100.0	100.0	93.7	92.8	91.4
FX Risk	FX Debt (% of Total Debt)							51.4	51.3	60.4
	ST FX Debt (% of Reserves)							13.8	13.3	34.8

Source: MoF

Baseline Macroeconomic Assumptions for 2023-2026

17. 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 4.3 percent;
    - Average non-oil Real GDP growth of 4.0 percent;
    - End-period inflation to be within the target band of 8±2 percent;
    - Fiscal deficit to average 6.3 percent of GDP (7.6% for 2023-2024; 5.0% for 2025-2026);
    - Primary balance on commitment basis to average a surplus of 1.3 percent of GDP; and
    - Stock of Gross International Reserves to cover at least 4 months of imports of goods and services.
18. 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 2.8 percent;
    - Non-Oil Real GDP growth of 3.0 percent;
    - End-period inflation of 18.9 percent;
    - Fiscal deficit of 7.7 percent of GDP;
    - Primary balance on commitment basis of a surplus of 0.7 percent of GDP; and
    - Stock of Gross International Reserves to cover not less than 3.3 months of imports of goods and services.
19. Provisional macroeconomic data, upon which the 2023 MTDS was formulated, are presented as follows:

Table 2: Macroeconomic Assumptions

Indicator	2022 Prov Q1-Q3	2022 Projected Outturn	2023 Budget	2024 Indicative	2025 Indicative	2026 Indicative
Nominal GDP	591,883	615,761	800,921	953,578	1,094,354	1,244,226
Revenue & Grants	65,399	98,080	143,956	171,757	206,532	232,366
Expenditure	109,421	142,926	205,432	242,743	260,914	293,403
o/w Interest Payments	32,101	44,012	52,550	73,860	67,840	72,867
Primary fiscal balance (commitment)	-11,921	-16,920	5,510	10,174	21,158	19,883
Overall fiscal balance (cash)	-44,022	-44,846	-61,475	-70,986	-54,382	-61,037
Gross International Reserves (in millions of USD)	6,592					
			(% change)			
GDP at constant prices	4.0*	3.5	2.8	3.9	4.9	5.6
Real GDP (Non-oil)	4.1*	3.6	3.0	3.1	4.7	5.4
			(% GDP)			
Revenue	11.0	15.9	18.0	18.0	18.9	18.7
Expenditure	18.5	23.2	25.6	25.5	23.8	23.6
Interest Expenditure	5.4	7.1	6.6	7.7	6.2	5.9
Primary fiscal balance (commitment)	-2.0	-2.7	0.7	1.1	1.9	1.6
Overall fiscal balance (cash)	-7.4	-7.3	-7.7	-7.4	-5.0	-4.9

*Note: * Average growth H1 2022*

Source: MoF

Financing Strategy

20. The 2023 debt strategy focuses on an appropriate financing mix to mitigate the embedded costs and risks to achieve the desired composition of the public debt portfolio with respect to borrowing from external and domestic sources.
21. The strategy intends to reduce the fragmentation in the domestic debt market by consolidating existing bonds tendered for the DDEP to build benchmark bonds. This is to facilitate trading on the secondary market.
22. The financing strategy proposes a voluntary debt exchange on domestic debt in 2023 to reduce refinancing risk. Furthermore, Treasury Bills are to be issued mainly for the purposes of cash and treasury management and budget financing. The strategy also proposes the build-up of buffers to reduce Government’s exposure to volatilities on debt markets and zero financing from the Bank of Ghana.
23. On the external front, the strategy proposes that concessional funding sources be optimised and further assumes a debt restructuring programme on the existing external debt portfolio.

Foreign Currency Risk Benchmark

24. 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

25. 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.

Refinancing Risk Benchmark

26. To reduce refinancing or rollover risk due to the use of Treasury bills for treasury and cash management purposes, the share of Treasury Bills in the total public debt stock is expected to be within 15-20 percent for prudent treasury management purposes.
27. Furthermore, 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

Debt Limits on External Borrowing

28. In line with efforts to restore debt sustainability, Government will actively engage bilateral and multilateral development partners to raise concessional financing which would be channelled directly into supporting the budget. Government will, therefore, limit contracting new debt from non-concessional sources.
29. However, there may be cases where non-concessional borrowing will be required to finance critical projects. The quantum of such non-concessional financing will be determined within limits that are consistent with the debt sustainability. The limits will apply to debt contracted by State-Owned Enterprises (SOEs) and all covered entities.

Charging Risk-Based Fees

30. 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.

Introduction of Benchmark Bond Programme Guidelines

31. To achieve the Government's debt management objective of having a matured and robust domestic debt market, the Ministry of Finance, in collaboration with the Ghana Fixed-Income Market, developed a Benchmark Bond Programme Guidelines for the domestic debt market. The guidelines are aimed at ensuring efficient secondary market trading and enhancing transparency in price discovery.
32. The benchmark bond programme guidelines are expected to help:
    - extend the yield curve and achieve fewer but larger-sized instruments in the portfolio;
    - increase bond market liquidity and sustain a stable yield curve;
    - enhance price discovery and secondary market trading;
    - allow for product innovation and facilitate performance evaluation of portfolios; and
    - increase participation by non-bank players such as pension sector firms, insurance companies, and foreign investors, as they can price on the curve effectively.

Annual Borrowing Plan

33. 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 in 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

34. 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. The Ministry has established a dedicated menu on the MOFs website, where information related to debt management activities including debt operations, can be accessed.

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

35. 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.
36. 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.

37. 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.
38. 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

39. The MTDS for the period 2023-2026 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 Government's 2023 Budget and Economic Policies. The cost-risk trade-off of alternative borrowing strategies under the MTDS has been evaluated within the medium-term context.
40. The MTDS, having considered both global and domestic market environments and related vulnerabilities, recommends an appropriate financing mix to mitigate the costs and risks 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 and the GDDE.
41. With the coming into force of the MTDS for the period 2023-2026, the approved MTDS for the period 2022-2025 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