

***IN THE FIRST SESSION OF THE EIGHTH PARLIAMENT OF THE FOURTH REPUBLIC
OF GHANA***

REPORT OF THE FINANCE COMMITTEE

ON THE

**ANNUAL PUBLIC DEBT REPORT
FOR THE 2020 FINANCIAL YEAR**

AUGUST 2021

1.0 INTRODUCTION

The **Annual Public Debt Report for the 2020 Financial Year** was *presented* to the House on Monday 29th March, 2021 by the Honourable Minister then responsible for Finance, Mr. Osei Kyei-Mensah-Bonsu.

Pursuant to Article 103 of the 1992 Constitution and Order 169 of the Standing Orders of the House, the Report was *referred* to the Committee on Finance for Consideration and Report.

The Committee subsequently met and discussed the Report with a Deputy Minister for Finance, Hon. Abena Osei-Asare as well as a team of officials from the Ministry of Finance and hereby submits this report to the House.

The Committee is grateful to the Honourable Deputy Minister for Finance and the team of officials for attending upon the Committee.

2.0 REFERENCES

The Committee referred to and/or was guided by the following documents *inter alia* during its deliberations on the Agreement:

- The 1992 Constitution of the Republic of Ghana
- The Standing Orders of the Parliament of Ghana
- The Public Financial Management Act, 2016 (Act 921)

- The Budget Statement and Economic Policy of the Government of Ghana for the 2021 Financial Year.

3.0 BACKGROUND

It is provided in Section 72(1) of the Public Financial Management Act, 2016 (Act 921) that *"The Public Debt Management Office shall, in respect of each preceding year, prepare an annual report on*

- (a) Borrowings and other government debt management operations*
- (b) Guarantee and lending activities of Government, and*
- (c) Other finance arrangements entered into by Government"*

Pursuant to the above, the Ministry of Finance prepared and presented the 2020 Annual Public Debt Report to Parliament.

The 2020 Annual Public Debt Report covers broad debt management operations in 2020, and is intended to enhance transparency in Ghana's public debt management. It is also intended to update stakeholders and the general public on key developments in the national debt management front.

In 2020, Government took several measures to ensure efficient and effective management of public debt in compliance with the debt management strategy approved by Cabinet and in line with the financing requirement, as stipulated in the 2020 Budget Statement and Economic Policy. The key objectives of such measures were to lengthen the maturity profile by issuing long-

term benchmark government securities, reduce the refinancing risk embedded in the debt portfolio, diversify the investor base, and contribute to the achievement of favourable sovereign rating for the country, especially as the COVID-19 pandemic rages on.

Per the law, the Public Debt Office of the Ministry of Finance has the responsibility for the preparation of this Annual Public Debt Report. This report provides a comprehensive summary of public debt management activities for 2020 and includes the following:

- Government borrowings and other debt management operations;
- Guarantee and on-lending activities of Government and other financing arrangements entered into by Government;
- Debt management strategy and the rationale for the strategy
- List of outstanding Government debt
- List of outstanding Government guarantees, the amount and beneficiaries of the guarantees, and an assessment of the fiscal risk embedded in the guarantees; and
- List of on-lending operations, including outstanding amounts and beneficiaries of the loans, and an assessment of the inherent credit risk of the on-lent loans.

3.1 DEBT MANAGEMENT OBJECTIVE

The Committee was informed that the objectives of Government's debt management are to ensure that Government's financing needs are met on a timely basis at the

lowest attainable cost consistent with a prudent degree of risk, while promoting the development of the Ghanaian debt market.

For the year under review, the Medium Term Debt Management Strategy (MTDMS) was to finance the budget deficit using domestic securities (preferably long-term bonds) and external financing, including the International Capital Market (ICM).

The main objective of the Government of Ghana (GoG), following Ghana's successful completion from the Extended Credit Facility (ECF) programme of the International Monetary Fund (IMF) in April 2019, is to, *among other things*, maintain fiscal discipline and debt sustainability without compromising on economic growth.

This objective led to the introduction of a number of measures including the strict enforcement of the Public Financial Management (PFM) Act, 2016 (Act 921), to promote transparent and credible management of public finances and the enactment of the Fiscal Responsibility Act, 2018 (Act 982) to cap the annual fiscal deficit at 5.0 percent of Gross Domestic Product (GDP), while also posting a positive primary balance to ensure fiscal prudence and debt sustainability.

The year 2020 began on a promising note, and the country was well-primed to achieve its objectives, albeit being an election year. The macroeconomic environment was favourable and exhibited a strong sense of resilience to propel economic growth, as evidenced by the performance of key macroeconomic indicators in 2019. In addition, Government had successfully executed a landmark US\$3,000.0 Million Eurobond issuance to finance the budget in a timely manner.

The bright prospect was, however, suddenly besmirched as news of the novel Coronavirus Disease (COVID-19) broke, with Ghana recording its first case in March 2020. The year will forever be remembered as one that shocked the whole world, bringing the global health and financial systems almost to a standstill. What started as a health pandemic later became a permanent development and economic crisis plunging the world economy into recession.

Ghana, like other countries across the world, initiated fiscal and social measures to mitigate the effects of the pandemic. Among the measures implemented by the Government of Ghana were the closure of the country's borders, enforcement of social distancing protocols, and the imposition of partial lockdowns in some parts of the country. These measures proved to be effective in reducing the rate of virus infections, but this success also proved to be costly. As a result, Government's fiscal operations were affected due to the slowdown in economic activities, leading to significant revisions in the 2020 revenue targets, while expenditures increased and overrun the targets by wide margins.

Debt financing of expenditures, therefore, increased in 2020, with a consequent increase in the fiscal deficit way above the original Budget target, but only marginally exceeding the Mid-Year revised target. Due to these developments, Government suspended the implementation of the Fiscal Responsibility Act to accommodate the additional expenditures occasioned by the pandemic. The debt limit for contracting non-concessional external financing was also

increased from US\$750.0 Million to US\$1,000.0 Million to cater for the construction and refurbishment of hospitals and other health infrastructure.

3.2 PURPOSE OF THE REPORT

The purpose of the Report is to outline and report on borrowings and other Government debt management operations, guarantee and lending activities of Government and other finance arrangements entered into by Government for the year 2020.

The report is also meant to disseminate information on Ghana's public debt portfolio and debt management activities carried out over the past year to stakeholders, including lenders and investors in Government securities, as well as the general public.

4.0 OBSERVATIONS

4.1 Macroeconomic Developments in 2020

In the year 2020, Government secured financing from the World Bank and the IMF's Rapid Credit Facility (RCF) to support efforts to mitigate the effects of the pandemic.

Another key development in 2020 was the successful issuance of Ghana's US\$3.0 Billion Eurobond through participation in the International Capital Market (ICM).

In line with the 2020-2023 Medium-Term Debt Management Strategy (MTDS), Government issued a total of US\$3,000.0 Million in February 2020 on the ICM in three (3) tranches of 6-

year, 14-year, and 41-year Eurobonds amounting to US\$1,250.0 Million, US\$1,000.0 Million, and US\$750.0 Million, which were priced at 6.375 percent, 7.875 percent, and 8.750 percent, respectively. An amount of US\$523.1 Million of the proceeds was used to buyback part of the maturing 2023 Eurobond.

4.2 Gross Public Debt Levels

Nominal public debt stock increased from GH¢218,228.9 Million (US\$39,387.2 Million) in 2019, representing 62.4 percent of GDP, to GH¢291,630.7 Million (US\$50,832.4 Million) in 2020, representing 76.1 percent of GDP. The increase resulted mainly from increased fiscal deficit and primary balance deficit, exchange rate depreciation, disbursement of existing loans, and contracting of new loans.

The increase in the external debt stock by GH¢29,049.1 Million (US\$4,366.4 Million) from the 2019 stock of GH¢112,747.7 Million was primarily due to additional disbursements of loans, the US\$3,000.0 Million Eurobond issuance in February 2020, as well as exchange rate fluctuations during the year under review.

The much higher rise of GH¢44,352.7 Million (US\$7,078.8 Million) in the domestic debt stock in 2020 was mainly due to net issuances of domestic instruments to pay down the cost incurred from the crystallisation of contingent liabilities in the energy sector and the financial sector bailout.

Tables 1 and 2 below show developments in the Gross Public Debt since 2016.

Table 1: Gross Public Debt Developments, 2016-2020 (GH¢' Million)

Debt Type	2016	2017	2018	2019	2020 Prov.
External	68,762.1	75,777.6	86,202.5	112,747.7	141,796.8
Domestic	53,403.4	66,769.1	86,899.7	105,481.2	149,833.9
Total Debt	122,165.5	142,546.6	173,102.2	218,228.9	291,630.7

Source: Ministry of Finance

Table 2: Gross Public Debt Developments, 2016-2020 (US\$' Million)

Debt Type	2016	2017	2018	2019	2020 Prov.
External	16,437.7	17,158.2	17,875.4	20,349.4	24,715.8
Domestic	12,766.2	15,118.4	18,020.0	19,037.9	26,116.7
Total Debt	29,203.8	32,276.7	35,895.5	39,387.2	50,832.4

Source: Ministry of Finance

4.3 Currency Composition of External Debt

As at end-December 2020, USD-denominated debt constituted 70.0 percent of the external debt stock, with 17.3 percent being EUR. The Chinese Yuan (CNY), GBP and Japanese Yen (JPY) accounted for 3.8 percent, 2.2 percent,

and 2.0 percent of the external debt stock, respectively. The other currencies, including the Kuwaiti Dinar (KWD), Korean Won (KRW) and Saudi Riyal (SAR) among others, accounted for the remaining 4.5 percent.

The USD portion of the external debt portfolio declined marginally by 0.7 percentage points to 70.0 percent as at end-December 2020, whereas the share of EUR rose marginally by 0.7 percentage points to 17.3 percent over the same period. The shares of CNY and GBP increased in 2020, whereas that of JPY declined.

The Currency Composition of External Debt Stock, 2019 and 2020 is as presented in Table 3 below:

Table 3

Currency	2019	2020 Prov.
	<i>(in percent)</i>	
USD	70.7	70.0
Euro	16.6	17.3
CNY	2.6	3.8
GBP	1.9	2.2
JPY	3.0	2.0
Other currencies	5.3	4.5

Source: Ministry of Finance

4.4 External Creditor Category

The external debt comprises of multilateral, bilateral, commercial, export credits and other concessional debts.

At the end of the 2020 financial year, the bulk of external debt stock of US\$12,630.5 Million (51.1 percent) was owed to commercial creditors as at end-December 2020. The commercial stock comprises non-concessional loans obtained from commercial window and the holders of Ghana Eurobonds issued on the ICM.

The share of commercial debt increased significantly from 48.5 percent in 2019 to 51.1 percent in 2020. Similarly, the proportionate share of the ICM in the commercial debt portfolio increased from 37.8 percent in 2019 to 41.3 percent in 2020 following the issuance of US\$3,000.0 Million Eurobond in the same year.

A breakdown of the total external debt shows that multilateral debt, which is mainly contracted on concessional terms, amounted to US\$8,280.2 Million or 33.5 percent of the total external stock as at end-December 2020. The stock of multilateral debt showed an increase of 26.3 percent from the 2019 figure of US\$6,555.5 Million. Out of this, the International Development Association (IDA) is the largest multilateral creditor with 55.8 percent. The IMF and the African Development Bank Group (AfDB) hold 25.4 percent and 14.8 percent, respectively. The share of multilateral debt increased marginally from 32.2 percent in 2019 to 33.5 percent in 2020 due to the

inclusion of new loans contracted from the IMF under the RCF, IDA and AfDB in the external debt portfolio.

4.5 External Loan Disbursements

The Committee observed that external loan disbursement amounted to US\$5,179.7 Million as at end-December 2020, compared to US\$4,011.0 Million as at end-December 2019. This represents an increase of US\$1,168.7 Million (nearly 29.1%). The increase was mainly attributed to the proceeds from the US\$3,000.0 Million Eurobonds issued in 2020 and US\$1,000.0 Million RCF from the IMF. The proceeds from the Eurobonds amounted to 57.9 percent of total disbursements during the year. Disbursements from multilateral, bilateral and commercial sources during the year accounted for US\$1,448.6 Million, US\$186.3 Million, and US\$3,544.8 Million, respectively. This represented 28.0 percent, 3.6 percent and 68.4 percent of the total disbursement, respectively.

4.6 Domestic Debt Stock

The outstanding stock of domestic debt at end-December 2020 stood at GH¢149,833.9 Million, compared to GH¢105,481.2 Million at end-December 2019 reflecting an increase of 42.0 percent. The increase in the stock of domestic debt was partly due to financing from the BoG Asset Purchase Programme and net domestic borrowing used to support the 2020 budget.

4.7 Domestic Debt by Category

The stock of domestic debt comprises of marketable debt, non-marketable debt and domestic standard loans.

The share of domestic debt as a percentage of GDP increased from 30.2 percent in 2019 to 39.1 percent in 2020. As a percentage of total public debt, it increased from 48.3 percent in 2019 to 51.4 percent in 2020.

In line with the debt strategy for 2020, Government strived to mobilise funds through marketable and non-marketable debt instruments. There were two new standard loans signed in 2020 and a total of disbursement of GH¢131.1 Million in the domestic standard loan portfolio. This led to an increase in the share of domestic standard loans to 0.15 percent of the total domestic debt as at end-December 2020 from 0.12 percent in 2019. The total non-marketable debt increased to GH¢26,694.4 Million as at end-December 2020, from GH¢23,694.5 Million as at end-December 2019. This represented 17.8 percent of the total outstanding domestic debt as at end-December 2020, as against 22.5 percent in 2019. Consequently, the share of marketable debt in the domestic debt stock increased from 77.4 percent as at end-December 2019 to 82.0 percent as at end-December 2020.

4.8 Credit Ratings

For the year 2020, seven (7) rating actions were conducted on Ghana with mixed results. In January 2020, Moody's affirmed Ghana's long-term issuer and senior unsecured bond ratings at B3 and changed the outlook to positive from stable. A month later, Standard & Poor's (S&P) assessed Ghana and maintained the country's rating of B with a stable outlook.

However, the novel Coronavirus impacted ratings negatively. On 20th April, 2020, Moody's affirmed Ghana's B3 ratings but changed the outlook from positive to negative. Fitch, on 21st April, 2020, affirmed Ghana's Long-Term Foreign-Currency Issuer Default Rating (IDR) at B and maintained its outlook at stable. S&P, on 29th April, 2020, affirmed Ghana's ratings at B and changed the outlook from stable to negative.

The Committee noted that the mixed credit rating review results were not peculiar to Ghana. Several countries, including South Africa, Nigeria, Angola, Mauritius, and the UK were either downgraded or suffered worsening outlook during the reporting period.

On 11th September, 2020, S&P Global Ratings lowered Ghana's long-term foreign and local currency sovereign credit ratings to B- from B and affirmed its B short-term ratings. However, S&P adjudged the outlook to be stable.

The reason for the ratings downgrade was because of the elevation in fiscal policy stance taken by Government to save

lives and provide relief to many Ghanaians who were severely impacted by the pandemic. On 15th October, 2020, Fitch affirmed Ghana's Long- Term Foreign-Currency IDR at B and maintained its outlook at stable. Fitch in their report noted with satisfaction the retracement steps outlined by Government in addressing fiscal whiplash brought about by the pandemic.

4.9 On-Lent Loan Portfolio and Recoveries

The stock of recoverable loans as at end-December 2020, consisting of Export Credit Guarantee Department (ECGD) facilities, loans to SOEs, and other on-lent facilities to private companies amounted to GH¢14,738.4 Million. Out of this, GH¢206.7 Million were repayment arrears mainly from on-lent loans provided to SOEs. During the year under review, recovery of GH¢43.3 Million was made from the on-lent portfolio.

4.10 Loan Guarantees

The Committee observed that loan guarantees contribute to reduction in borrowers' credit risk by making it possible to raise credit at lower costs. The outstanding stock of Government-backed guarantees as at end-December 2020 amounted to GH¢2,383.0 Million (US\$415.4 Million), as detailed in Table 4 below:

Table 4

Beneficiary	Project Title	Currency	Disbursed Outstanding Debt (Million)	US\$ Equivalent (Million)	GH¢ Equivalent (Million)
GPHA		EUR	128.1	157.5	903.7
GPHA		EUR	160.0	196.8	1,129.1
VRA		KWD	6.2	20.2	116.2
VRA		KWD	1.1	3.5	20.2
GRIDCo		EUR	16.8	20.6	118.3
GRIDCo		EUR	13.5	16.6	95.5
Total				415.4	2,383.0

Source: Ministry of Finance

4.11 Debt-to-GDP Ratio

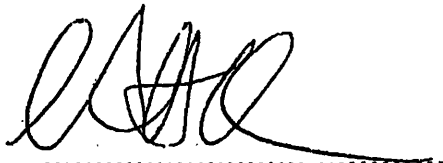
Total Public Debt as a percentage of the Gross Domestic Product (GDP) with Financial & Energy Sector Costs at the end of 2020 was 76.1 percent whilst Total Public Debt as a percentage of the Gross Domestic Product (GDP) without Financial & Energy Sector Costs was 69.7 percent.

The Debt-to-GDP ratios inched up from 2019 to 2020 from 62.4 percent to 76.1 percent with Financial & Energy Sector Costs and from 57.4 percent to 69.7 percent without with Financial & Energy Sector Costs.

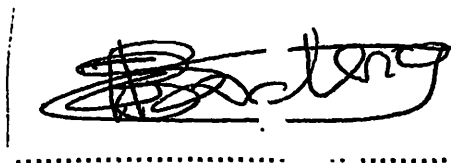
5.0 CONCLUSION

The Committee finds that the 2020 Annual Public Debt Report has been prepared in accordance with Section 72 of the Public Financial Management Act, 2016 (Act 921) and based on the approved Debt Management Strategy, while also recounting all major debt-management activities performed during the year and taking into account the debilitating effect of the COVID-19 pandemic on debt operations.

The Committee, in view of the foregoing observations, respectfully recommends to the House to adopt this report and approve the **Annual Public Debt Report for the 2020 Financial Year** in accordance with Section 72 of the Public Financial Management Act, 2016 (Act 921) and the Standing Orders of the House.



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HON. KWAKU KWARTENG
(CHAIRMAN, FINANCE COMMITTEE)



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MS. EVELYN BREFO-BOATENG
(CLERK TO THE COMMITTEE)

5TH AUGUST, 2021