

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

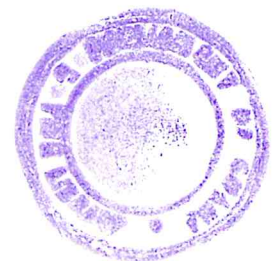
REPORT OF THE

FINANCE COMMITTEE

ON THE

**ANNUAL DEBT MANAGEMENT REPORT
FOR THE 2016 FISCAL YEAR**

25TH JULY, 2017



1.0 INTRODUCTION

The **Annual Debt Management Report for the 2016 Fiscal Year** was laid in the House on 2nd March, 2017 by the Minister for Finance, Hon Ken Ofori-Atta. The Report was subsequently *referred* to the Finance Committee for consideration and report in accordance with article 103 of the 1992 Constitution and Order 169 of the Standing Orders of the House. **This followed the presentation of the Budget Statement and Economic Policy of Government for the 2017 Financial Year by the Minister of Finance, Hon Ken Ofori-Atta.**

The Committee met and considered the Report with the Chief Director and other officials from the Ministry of Finance.

The Committee is grateful to the Chief Director and the other officials from the Ministry of Finance for attending upon the Committee.



2.0 REFERENCES

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

- The 1992 Constitution of the Republic of Ghana
- The Standing Orders of the Parliament of Ghana
- Interpretation Act, 2009 (Act 792)

- The Budget Statement and Economic Policy of the Government of Ghana for the 2017 Financial Year.

3.0 BACKGROUND INFORMATION

Following the implementation of the Highly Indebted Poor Country (HIPC) initiative which culminated in successfully reaching Completion Point in 2006, Ghana significantly reduced her debt burden to about 26% of Gross Domestic Product (GDP). Since then, the country has witnessed a significant build up of debt, reaching the current level of 72.5% of GDP in 2016.

The Ministry of Finance presented this maiden Annual Debt Management Report (ADMR) to Parliament in accordance with section 72 of the Public Financial Management Act, 2016 (Act 921).

The Report aims at providing Parliament with details of the debt dynamics in 2016 and to also serve as a useful repository of information for students, academicians, researchers, civil society organizations, the media and the general public.

Pursuant to section 72 of Act 921, the Report is required to include *among others*:

- Government borrowings and debt management operations
- Guarantee and lending activities of Government

- Debt management strategy and the rationale for the strategy
- List of outstanding Government debts
- 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 lending operations, including outstanding amounts and beneficiaries of the loans and an assessment of the credit risk of the loans.

4.0 OBSERVATIONS

4.1 Public Debt of Ghana

The Committee noted that the public debt of Ghana is defined to include all borrowings by the Central Government and those guaranteed by Government for the benefit of State Owned Enterprises (SOEs). The current primary law for debt management is the Public Financial Management Act, 2016 (Act 921).

4.2 Macroeconomic Developments in 2016

According to the January 2017 update of IMF's World Economic Outlook, world output in 2016 was estimated at 3.1 percent, marginal dip from the 2015 outturn of 3.2 percent. On a Regional basis, growth in emerging markets and the developing countries remained unchanged from the 4.1 percent in 2015 whilst that in advanced economies declined from 2.1 percent in 2015 to 1.6 percent in 2016. In Ghana, the growth for the year 2016 stood at 3.6 percent.

Monetary policy stance remained tight throughout 2016 in an effort by the Bank of Ghana to address inflationary pressures and exchange rate depreciation. The monetary policy rate stood at 26.0 percent for the greater part of the year till a 50 basis points reduction to 25.5 percent was announced by the Monetary Policy Committee (MPC) in October, 2016.

Inflation gradually eased from 17.7 percent from end 2015 to 15.4 percent at the end of 2016. The Balance of Payments position improved from a deficit of US\$129 million (equivalent to 0.3% of GDP) in 2015 to a surplus of US\$247 million (equivalent of 0.6% of GDP). Gross Foreign Assets were also said to have increased from US\$5,884.70 million at the end of 2015 to US\$6,161.80 million at the end of 2016.

4.3 Government Borrowing/ Financing Operations in 2016

Government's borrowing plan in 2016 was guided by the revised fiscal deficit target of 5.0 percent of GDP (GHC8,407.66 million). The Provisional outturn for 2016 was however 8.7 percent of GDP (GHC14,731.60 million) indicating a higher than expected budget deficit, both in nominal terms and in percentage of GDP.

4.4 Total Public Debt of Ghana

The Gross public debt stock as at the end of 2016 stood at GHC122,263.00 million (equivalent to US\$29,227.15 million), an increase from the 2015 figure of GHC100,234.90 (equivalent to US\$26,403.30 million).

The table below shows the debt stock in Ghana Cedis and its ₵ equivalent in US Dollars from 2012 to 2016

Debt in Ghana Cedi ('million)

Debt Type	2012	2013	2014	2015	2016
External	17,206.9	25,827.3	44,530.0	59,912.8	68,859.6
Domestic	18,792.7	27,254.0	35040.2	40,322.1	53,403.4
Total Public Debt	35,999.6	53,081.3	79570.0	100,234.9	122,263.0

Debt in US Dollars ('Million)

Debt Type	2012	2013	2014	2015	2016
External	9,153.6	11,902.0	13,871.8	15,781.9	16,461.0
Domestic	9,997.2	12,559.4	10,915.6	10,621.4	12,766.2
Total Public Debt	19,150.8	24,461.4	24,787.4	26,403.3	29,227.1

The above table shows that the public debt stock has gradually increased from GHC35,999.6 million in 2012 to GHC122,263.0 million in 2016. As a percentage of GDP, the debt stock ratio increased from 72.2 percent of GDP in 2015 to 72.5 percent of GDP in 2016.

4.5 External Debt Stock

External Debt Stock of Ghana increased from GHC59,912.81 million (US\$15,781.89 million) at the end 2015 to GHC68,859.62 million (US\$16,460.99 million) at the end of 2016, an increase of 14.93 percent. The nominal increase in the external debt stock was said to be partly attributable to larger than expected net resource flows resulting from external project loans and disbursements.

In terms of GDP however, external debts declined from 43.2 percent of GDP in 2015 to 40.8 percent in 2016.

The total external debt stock comprised debt to three major classes of creditors. Multilateral debts constituted 33.7 percent, bilateral debts represented 14.9 percent whilst commercial debts accounted for 41 percent of the total external debts. Other concessional facilities constituted the remaining 10.5 percent approximately.

4.6 US Dollar Bond Issue since 2007

The Committee observed that Government's capital market strategy over the years has focused on meeting its funding needs, reducing short-term debt and supporting an effective liability management programme.

Ghana has since 2007 issued five Eurobonds amounting to US\$4.5 billion. The first bond was issued in 2007 to support the budget. The country returned in 2013 to the international capital market to raise US\$1.0 billion for budget support. Ghana has since maintained its presence on the market, raising various amounts to partly implement its liability management strategy through buy-back operations and tender offers, and partly for budget support. Government further issued bonds amounting to US\$1.0 billion in each of 2014 and 2015.

In 2016, government issued another Eurobond of US\$750 million to refinance part of the maturing bond in 2017 and partly for budget support. Government further issued a US\$94.64 million domestic US Dollar bond open solely to Ghanaian resident investors.

As part of the liability management strategy, Government has cumulatively bought-back US\$620.88 million of the 2017 and 2030 Eurobonds, leaving a total outstanding amount of US\$3,973.76 million.

4.7 Domestic Debt Stock

The domestic debt stock as at the end of 2016 amounted to GHC53,381.98 million (US\$12,761.04 million), up from GHC40,322.14 million (US\$10,621.43 million) at the end of 2015.

The domestic debts comprise marketable debts of 72 percent, non-marketable debts of 27 percent and structured domestic bank loans of approximately one (1) percent of the total domestic debt.

4.8 Contingent Liabilities and On-Lending Loans

Government in 2016 continued the policy of on-lending and guarantees to recover loans advanced to State Owned Enterprises (SOEs) for commercially viable projects, using escrow mechanisms. In accordance with the liability management strategy, Government initiated processes aimed at operationalizing all subsidiary on-lending agreements entered into between Government and SOEs to enhance project cash flows towards debt service and to reduce the debt burden on the taxpayer.

The Committee was informed that government has negotiated and signed on-lending agreements with various institutions for the projects listed in the table below:

No.	Project Description	Currency	Amount
1	Kumasi Central Market	US\$	172,512,500.00
2	Tamale Airport Phase 1	US\$	100,000,000.00
3	Acquisition of 200 MRT Huanghai buses, spare parts and ancillary services for MMTL	US\$	40,030,463.00
4	AMA sanitation and water project	SDR	33,000,000.00
5	Kotokuraba Market redevelopment project	RMB	200,000,000.00
6	GRIDCo: Kpando-Kajebi substation project	EUR	11,933,885.00
7	VTB Capital	US\$	272,000,000.00
8	GWCL: Kpong water project	US\$	270,000,000.00
9	STC: Supply of 290 scania buses	US\$	16,305,719.90
10	Bui Power Authority: Bui hydroelectric project	US\$	343,853,060.70
11	Environmental Monitoring Laboratory for UMaT	EUR	7,840,723.00
12	Prepayment Meters and accessories for ECG	US\$	80,000,000.00

As at the end of 2016, the total outstanding on-lent debt to SOEs was said to stand at approximately US\$1,914.02 million. The SOEs involved are required under the on-lending arrangement to transfer all cash flows into an escrow account to cater for debt service payments.

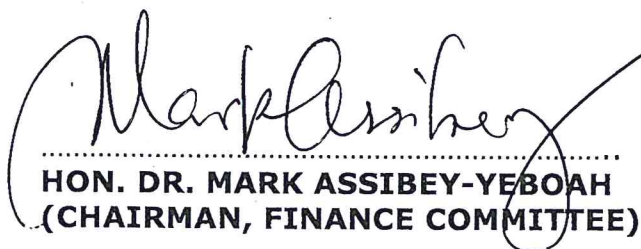
4.9 Debt Sustainability

To ensure debt sustainability and to ensure that repayment obligations are met at the lowest possible cost, the Committee urges government to put in place prudent measures, including but not limited to refinancing the external and domestic debts to extend their tenor and to reduce debt service costs. New borrowings should also, as far as possible, be channeled into productive sectors of the economy.

5.0 RECOMMENDATION AND CONCLUSION

In view of the foregoing observations, the Committee recommends to the House to adopt this report and approve the **Annual Debt Management Report for the 2016 Fiscal Year.**

Respectfully Submitted.



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HON. DR. MARK ASSIBEY-YEBOAH
(CHAIRMAN, FINANCE COMMITTEE)



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MS. EVELYN BREFO-BOATENG
(CLERK, FINANCE COMMITTEE)

