

IN THE SECOND SESSION OF THE SEVENTH PARLIAMENT OF THE FOURTH  
REPUBLIC OF GHANA

*REPORT OF THE FINANCE  
COMMITTEE*



*ON THE*

**REQUEST BY THE GOVERNMENT OF GHANA FOR THE  
ISSUANCE OF THE 2018 SOVEREIGN BOND AND GLOBAL  
DEPOSITORY NOTE (GDN), TO USE**

- i. US\$1.00 BILLION TO FINANCE THE 2018 BUDGET**
- ii. UP TO US\$1.50 BILLION TO REFINANCE MATURING EXTERNAL BONDS (I.E. THE 2022 AND 2023 EURO BONDS); AND**
- iii. ABOUT GH¢500.00 MILLION FROM THE GDN ISSUE TO REFINANCE EXPENSIVE DOMESTIC CEDI DENOMINATED DEBT.**

March 2018



## **1.0 INTRODUCTION**

The **Request by the Government of the Republic Ghana for the issuance of the 2018 Sovereign Bond and Global Depository Note (GDN) to use:**

- i. US\$1.00 billion to finance the 2018 Budget;**
- ii. Up to US\$1.50 billion to refinance maturing external bonds (i.e. the 2022 and 2023 Eurobonds); and**
- iii. About GH¢500.00 million from the GDN issue to refinance expensive domestic cedi denominated debt**

was *laid* in the House on 14<sup>th</sup> March, 2018 by the Honourable Minister responsible for Monitoring and Evaluation, Dr. Anthony Akoto Osei on behalf of the Minister responsible for Finance.

Pursuant to article 103 of the 1992 Constitution and Orders 169 and 171 of the Standing Orders of the House, the Request was referred the Committee on Finance for Consideration and Report.

The Committee subsequently met and discussed the Request with the Minister for Finance, Hon. Hon Ken Ofori-Atta and his Deputies Hon. Charles Adu Boahene and Hon. Abena Osei Asare, the First Deputy Governor of the Bank of Ghana, Dr. Maxwell Opoku Afari as well as officials from the Ministry of Finance and the Bank of Ghana and hereby submits this report to the House.

The Committee is grateful to the Honourable Minister for Finance and his Deputies, the First Deputy Governor of the Central Bank and the officials from the Ministry of Finance and the Bank 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 Agreement:

- The 1992 Constitution of the Republic of Ghana
- The Standing Orders of the Parliament of Ghana
- The Public Finance Management Act, 2016 (Act 921)
- The Budget Statement and Economic Policy of the Government of Ghana for the 2018 Financial Year.

## **3.0 BACKGROUND**

In the 2018 Budget Statement and Economic Policy approved by the House in December 2017, Government stated its intention to raise US\$1 billion from the International capital Markets (ICM) to finance capital expenditure. It was also stated that Government will further access the International Capital Markets (ICM) for liability management operations such as buybacks and bond refinancing to re-profile external debt, extend tenors and reduce associated refinancing risks.

Since 2007, Ghana has issued five (5) Eurobonds on the ICM. The maiden 10-year bond which was issued in October 2007 was paid off on 4<sup>th</sup> October 2017. This has reduced the number of outstanding Eurobonds to four (4).

As at the end of December 2017, the outstanding balance of the four Eurobonds stood at US\$3,680.11 million (compared to US\$3,750.00 million in December 2016). The difference of about US\$ 70.00 million

represents the amount that was bought back on the 15-year 2030 Eurobond.

Also, Ghana's domestic bonds were issued at rates that have become expensive relative to current prevailing macroeconomic circumstances. There has thus arisen the need to refinance them with Global Depository Notes (GDN) with lower coupon rates. Government intends to issue the 2018 Sovereign Bonds and Global Depository Note to enable it to support the 2018 Budget and to refinance and re-profile some of the existing debt stock.

### **3.1 PURPOSE OF THE REQUEST**

The purpose of the Request is to seek Parliamentary approval for the Government to issue the 2018 Sovereign Bonds and Global Depository Note (GDN), to use:

- i. US\$1.00 billion to finance the 2018 Budget
- ii. Up to US\$1.50 billion to refinance maturing external bonds (i.e. the 2022 and 2023 Eurobonds); and
- iii. About GH¢500.00 million from the GDN issue to refinance expensive domestic cedi denominated debt.

### **4.0 FINANCIAL IMPACT**

The macroeconomic performance achieved in 2017 has strengthened the economic outlook of Ghana. The depreciation of the Cedi to the US Dollar was about 4.9%.

Current spreads on Ghana’s existing Eurobonds have however tightened. In view of the current impressive macroeconomic performance, Government is convinced that the coupon on the new issuance will be highly favourable.

Government has also taken note of the declining coupon rates on the domestic bond market and the recent bond issuances by Nigeria and Kenya and is satisfied that an Eurobond issuance would register a competitive price compared to the domestic bonds.

Government also expects the Global Depository Note issuance to attract lower coupon rates than Ghana’s domestic bonds.

## **5.0 OBSERVATIONS**

### **5.1 Outstanding Bonds**

The Committee observed that the maiden \$750 million Eurobond issued by Ghana was redeemed in 2017. The country’s outstanding bonds are as shown in the table below:

Instrument	Issuance Date	Amount Issued in US\$ Millions	Outstanding Amount in US\$ Millions	Coupon Rate	Maturity Date
10-year	August 2013	1,000.00	1,000.00	7.875%	Aug-23
10-year	July 2014	1,000.00	1,000.00	8.125%	Jan-26
15-year	August	1,000.00	930.11	10.750%	Oct-30

	2015				
6-year	September 2016	750.00	750.00	9.750%	Sep-22
TOTAL		3,750.00	3,680.11		

It was noted that the 2016 Eurobond matures in equal amounts of US\$250 million over three years (2021, 2022, and 2023).

## **5.2 Inclusion of Bond Issuance in the 2018 Budget**

The Committee noted that the 2018 Budget and Economic Policy Statement at pages 142 and 170 (Appendix 3A) thereof made provision for the raising of sovereign bond of US\$1 billion as well as a possible refinancing of the existing bonds.

In addition to the US\$1.00 billion needed to support the 2018 Budget, Government targets to engage in further buyback and bond exchange operations to save Government some interest cost on existing Eurobonds and to re-profile the public debt portfolio.

On the domestic market, Government intends to take advantage of the current low yields averaging 16.5% to refinance expensive bonds issued between 2015 and 2017 at an average yield of 24%.

### **5.3 Size and Tenor of Sovereign Bond**

As indicated in page 142 and Appendix A of the 2018 Budget and Economic Policy Statement, Government will fund a portion of the Budget with proceeds from sovereign bond issuances.

Government expects to issue up to US\$2.5 billion Sovereign Bonds of 10 years and 30 years' tenors at a relatively lower interest rates based on current market conditions.

Also, amortization of the bonds to be issued is anticipated to be on soft terms, thus there will be a paced amortization instead of bullet payments on maturity.

### **5.4 Diversification of Bond Portfolio**

The Committee was informed that the Issuance Programme for the Sovereign Bonds will include regular Eurobonds, as well as Panda, Green and/or Samurai Bonds, depending on market conditions.

A Panda Bond is a Chinese Renminbi-denominated bond from a non-Chinese issuer, sold in China. The internationalization and acceptance of the Chinese RMB as a tradable currency is expected to lead to the growth of Panda Bonds in the medium term, and hence Ghana desires to be the first African country to try a Panda issuance.

A Samurai Bond is a Yen-denominated bond issued in Tokyo by non-Japanese issuers, providing the issuer with access to Japanese capital.

The Committee noted that the offshore RMB and Yen proceeds can give Ghana a RMB/Yen balance sheet to reduce the mismatch in external currencies in Ghana's debt portfolio. It will also reduce the transaction



costs involved in changing money into these currencies using the Dollar. A stock of these currencies would also support trade between Ghana and the nations of the Far East which have become major trading partners of Ghana and Africa as whole.

### **5.5 Use of Bond Proceeds**

Even though the Budget stipulated that US\$ 1.00 billion of the bond proceeds would be used to support the Budget, the Committee still wanted to have an indication as to what the US\$1.00 billion would be used for. To this, the Committee was informed that the US\$1.00 billion budget support would be spent largely on CAPEX. Specific areas of expenditure from the proceeds include:

- Irrigation infrastructure
- Rehabilitation of warehouses and silos
- Fisheries and Aquaculture inputs and infrastructure
- Education infrastructure
- Health infrastructure
- Road infrastructure
- Rail infrastructure

### **5.6 Need for Liability Management**

The Committee was informed that per the current maturity profile of Ghana's International Capital Market debt portfolio, about US\$1,750.00 million falls due between 2021 and 2023. There is a soft amortization of about US\$750.00 million over 3 years between 2021 and 2023 and a bullet payment of US\$1.0 billion maturing in 2023.

The current maturity profile of the Eurobond portfolio was said to pose a number of challenges. These challenges include:

- i. High coupon rate which has a direct impact on the cost of debt service, and
- ii. High refinancing cost of impending maturities over the 3-year period from 2021-2023 which will put severe pressure on the fiscal.

The above challenges require aggressive implementation of the liability management programme with the view to reducing the associated cost and risk factors in line with Medium Term Debt Strategy (MTDS).

### **5.7 Issuance of GH¢500 million Global Depository Notes (GDN)**

The Government of Ghana has indicated that it would like to take opportunity of the declining domestic coupon rates to issue a conditional Global Depository Note. This GDN is a debt security which will be accessed and settled in US Dollars but denominated in Ghana Cedis. This debt instrument would be listed in London and be available to international investors who wish to invest in local bonds but are unable to do so due to operational limitations and mandate restrictions.

The Committee observed that currently, some of the banks in Ghana offer local custody services to international investors. However, there are a number of investors in the United States and Western Europe that do not use this arrangement in place.

By issuing the GDN, Ghana will have the opportunity to diversify the pool on non-residents who participate in the local bond market. This is

expected to significantly increase the visibility and analyst coverage of Ghana's domestic bond market and thereby lead to price discovery.

### **5.8 Sinking Fund**

The Committee noted that part of the proceeds from the Sinking Fund was used for the liability management operation in 2017 by buying back about US\$70.00 million on the 15-year 2030 Eurobond. This particular Bond is said to have the highest coupon rate in the debt portfolio.

As at the end of 2017, the Sinking Fund had a balance of US\$5.1 million.

### **5.9 Bonds in excess of US\$1.00 billion**

The Committee observed that the proposed financing Request exceeds the US\$1.00 billion indicated in the 2018 Budget. It was explained to the Committee that the additional amount is mainly due to Government's intention to raise more resources for liability management to manage the risk and cost associated with the impending maturities between 2021 and 2023.

The net addition to the country's debt stock, the Committee was informed, shall be US\$1.00 billion and stated in the Budget.

### **5.10 Timelines**

The Ministry of Finance indicated to the Committee that due to current market conditions, Government has tight timelines to issue the bonds. Nigeria was said to have successfully issued a bond on the ICM in January 2018 at lower spreads. Given that spreads are likely to increase

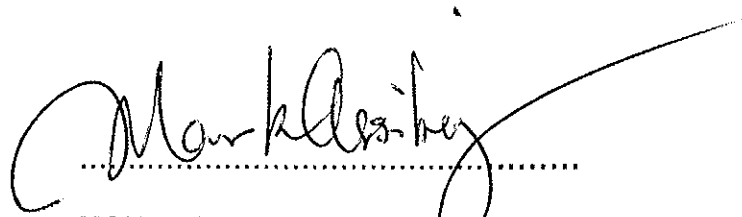
over time and render issuance more expensive, Government intends to issue the bonds before the close of April 2018 in order to enjoy the current favourable market conditions.

## **6.0 CONCLUSION**

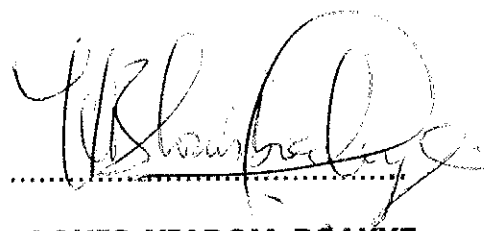
The Committee, having carefully scrutinised the Request, respectfully recommends to the House to adopt this report and approve by resolution, the **Request by the Government of the Republic Ghana for the issuance of the 2018 Sovereign Bond and Global Depository Note (GDN) to use:**

- i. US\$1.00 billion to finance the 2018 Budget;**
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- iii. About GH¢500.00 million from the GDN issue to refinance expensive domestic cedi denominated debt**

in accordance with article 181 of the 1992 Constitution of the Republic of Ghana, Sections 61, 62 and 64 of the Public Financial Management Act, 2016 (Act 921) and the Standing Orders of the House.



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



**LOUIS YIADOM BOAKYE  
(ASSISTANT CLERK)**

20<sup>TH</sup> MARCH, 2018

<b>Proposed Use of EURO Bond Proceeds</b>		
<b>MDA</b>	<b>Contract Title</b>	<b>Amount (GHC)</b>
<b>Sector: Economic</b>		<b>210,000,000</b>
<b>MDA: Ministry of Energy and Petroleum</b>		<b>45,000,000</b>
	National Electrification Project	45,000,000
<b>MDA: Ministry of Food and Agriculture</b>		<b>165,000,000</b>
	Construction of irrigation infrastructure	78,000,000
	construction of greenhouses and capacity building training centers	87,000,000
<b>Sector: Infrastructure</b>		<b>3,805,000,000</b>
<b>MDA: Ministry of Roads and Highways</b>		<b>2,830,000,000</b>
	Upgrading and bitumen surfacing of selected Roads	900,000,000
	Asphatic overlay on some selected roads	600,000,000
	Reconstruction of selected Roads	650,000,000
	Construction of Selected Roads	680,000,000
<b>MDA: Ministry of Railways Development</b>		<b>475,000,000</b>
	Design and construction of the railway lines	475,000,000
<b>MDA: Ministry of Water Resources, Works and Housing</b>		<b>500,000,000</b>
	Construction of Houses	50,000,000
	Coastal protection	450,000,000
<b>Sector: Social</b>		<b>485,000,000</b>
<b>MDA: Ministry of Education</b>		<b>135,000,000</b>
	supply and installation of integrated e-learning laboratories for senior high schools in ghana	45,000,000
	rehabilitation and reconstruction of dilapidated basic schools structures across the country	90,000,000
<b>MDA: Ministry of Health</b>		<b>350,000,000</b>
	Rehabilitation and expansion of hospitals	250,000,000
	Provision of hospital equipment	100,000,000
<b>GRAND TOTAL</b>		<b>4,500,000,000</b>

