

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

**REPORT OF THE
FINANCE COMMITTEE**

ON THE

**ANNUAL PUBLIC DEBT REPORT FOR THE
2017 FINANCIAL YEAR**

MAY, 2018.

1.0 INTRODUCTION

The **Annual Public Debt Report for the 2017 Financial Year** was *laid* in the House on 23rd March, 2018 by the Honourable Minister responsible for Finance, Hon. Ken Ofori-Atta.

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. Charles Adu-Boahene as well as a team of officials from the Ministry of Finance and the Controller and Accountant General's Department 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 2018 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 2017 Annual Public Debt Report to Parliament.

The 2017 Annual Public Debt Report covers broad debt management operations in 2017, 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 debt management front.

In 2017, Government's economic management hinged on 5 pillars. These pillars are revenue management, expenditure management, capping policy on earmarked funds, wage management and public debt management. The main objective was to restore and sustain macroeconomic stability and create a conducive environment for accelerated growth and jobs, and to bring the public debt to sustainable levels.

The Budget and Economic Policy of the Government of Ghana for the 2017 Financial Year outlined a number of measures towards the achievement of the macroeconomic objectives of the medium-term. Among the measures implemented on the debt management front is a liability management strategy which saw the re-profiling of the public debt. This resulted in the minimization of rollover and refinancing risk and the normalization of the yield curve to reduce interest costs.

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

Government's Medium Term Debt Management Strategy (MTDS) is to bring the public debt level to below 65% of GDP over the medium term.

Based on these objectives, Government in 2017 undertook policies to lengthen the maturity profile of domestic debt and also built liquidity in some benchmark bonds to support secondary market trading.

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 2017.

4.0 OBSERVATIONS

4.1 Macroeconomic Developments in 2017

The Committee was informed that Government in 2017 succeeded in restoring macroeconomic stability and growth due to strong commitment towards fiscal consolidation and the implementation of structural reforms. The year 2017 witnessed:

- a. a return to robust growth in the domestic economy
- b. easing of inflationary pressures on a consistent basis

- c. relative stability in the foreign exchange market
- d. decline in interest rates across all maturities
- e. marked improvement in the balance of payments position, the first in many years
- f. achievement of a positive primary balance in the fiscal accounts, the first in over a decade; and
- g. reduction in the public debt to GDP ratio to 69.8%.

Upswing in economic activity in 2017 was said to have been mainly due to stepped-up oil production following deferral of the Jubilee FPSO Turret Remediation Project. Real GDP growth for 2017 stood at 8.5%, much higher than the 2017 target of 6.3% and 2016 outturn of 3.7%.

Annual inflation dropped from 15.4% in 2016 to 11.8% in 2017.

4.2 Balance of Payment and Reserves

The Balance of Payment (BoP) recorded a surplus of US\$1.1 billion (2.4% of GDP) in 2017, compared to US\$247.4 million (0.6% of GDP) in 2016. This was mainly driven by higher export earnings from oil, gold and cocoa. Gross International Reserves as at the end of 2017 were US\$7.6 billion (sufficient to cover 4.3 months of import), compared to US\$6.2 billion (sufficient to cover 3.5 months of import) at the end of 2016.

4.3 Gross Public Debt Levels

The total public Debt in nominal terms increased from GH¢122.3 billion (US\$29.2 billion) in December 2016 to GH¢142.6 billion (US\$32.3 billion) in December 2017. External Debt on a nominal basis rose from GH¢68.9 billion to GH¢75.8 billion over the year 2017. Domestic Debt on a nominal basis also rose from GH¢53.4 billion at end December 2016 to

GH¢66.8 billion at end December 2017. As a percentage of Gross Domestic Product (GDP), domestic debt increased marginally from 31.9% to 32.7%. However, external debt as a percentage of GDP declined from 41.2% in 2016 to 37.1% in 2017.

The rise in nominal levels of the domestic debt stock was said to be attributable largely to increased domestic borrowing to finance the budget deficit in 2017.

The total public debt as a percentage of GDP which had increased consistently to about 73.1% as at the end of 2016, declined to 69.8% by the end of 2017.

The table below shows developments in the Gross Public Debt since 2014

Table 1: Gross Public Debt Developments, 2014-2017 (GH¢' million)

Debt Type	2014	2015	2016	2017 Prov
External	44,530.0	59,912.8	68,859.6	75,787.2
Domestic	35,040.2	40,322.1	53,403.4	66,768.9
Total Debt	79,570.2	100,234.9	122,263.0	142,556.1

Source: Ministry of Finance

Table 2: Gross Public Debt Developments, 2014-2017 (US\$' million)

Debt Type	2014	2015	2016	2017 Prov
External	13,871.8	15,781.9	16,461.0	17,160.4
Domestic	10,915.6	10,621.4	12,766.2	15,118.4
Total Debt	24,787.4	26,403.3	29,227.2	32,278.8

Source: Ministry of Finance

4.4 Declining Domestic Rates

The Committee noted that as a result of declining monetary policy rate and improved macroeconomic conditions, interest rates on Treasury securities declined significantly in 2017, especially on the short dated instruments. The 91-Day Treasury Bill ended the year 2017 at 13.3%, from 16.8% at the end of 2016. Government also issued a maiden 15-year bond at a rate of 19.75% and a 3-year domestic United States Dollar (USD) denominated Treasury Bond at a rate of 6.25%.

4.5 Budget Deficit for 2017

Government's borrowing plan for 2017 was guided by the revised fiscal deficit target of 6.3% of GDP (GH¢12.8 billion). The provisional outturn for 2017 was, however, 6.0% of GDP (GH¢12.2 billion) thus indicating a lower than expected budget deficit outturn.

4.6 Gross Financing and Debt Issuance in the Domestic Market

The budget deficit financing requirement for the 2017 Financial Year was funded mainly from domestic sources totalling about GH¢11.6 billion. Domestic financing was funded mostly from non-bank financial sources.

The gross domestic financing outturn increased by 14.9% from the 2016 outturn of GH¢63.6 billion to GH¢73.0 billion for 2017 as shown in the table below:

Table 3: Annual Gross Domestic Financing and Outturn (in GH¢' million)

Description	2016	2017	2017 Prov.
	Outturn	Prog.	Outturn
Gross Domestic Financing	63,561.3	71,880.0	73,009.3
o/w maturities	53,008.7	56,529.7	59,432.3
o/w net borrowing	10,552.6	15,350.3	13,577.0

Source: Ministry of Finance

The planned issuance for 2017 was GH¢71.9 billion as against a total outturn of GH¢73.0 billion in face value. The deviation of GH¢1.1 billion (1.6%) was explained as having been due to Government's liability management programme (which paid mostly 91-Day Treasury Bills) carried out during the year.

Out of the total amount of GH¢73.0 billion issued, maturities totalled GH¢59.4 billion. In April and December 2017, significant deviations in maturities were recorded due to the re-opening of the 5-year and 10-year bonds and the issuance of the 7-year bond and the maiden 15-year bond for liability management.

4.7 External Debt Stock

Ghana's external debt in nominal terms increased from GH¢68.9 billion (US\$16.5 billion) at the end of 2016 to GH¢75.8 billion (US\$17.2 billion) at the end of 2017. This increase was on account of positive net disbursement and exchange rate effect. In terms of GDP, however, external debts declined from 41.2% in 2016 to 37.1% in 2017.

4.8 Currency Composition of External Debt

The external debt is exposed to two (2) major currencies, the United States Dollar and the Euro. The share of USD in the portfolio at the end of 2017 was 64.6% (down from 68.7% at the end of 2016) whilst the Euro accounted for 20.4% (up from 17.4% at the end of 2016). The rest of the indebtedness is spread among other currencies including the Chinese Renminbi, Great Britain Pound, Japanese Yen, Kuwaiti Dinar and Saudi Riyal.

4.9 External Creditor Category

The External Debt portfolio at the end of 2017 comprised three major creditor categories: commercial, multilateral and bilateral.

The share of commercial debt declined from 51.4% in 2016 to 46.9% in 2017 whereas that of multilateral and bilateral increased from 33.7% and 14.9% to 37.5% and 15.6% respectively over the period under review.

4.10 External Debt Service

Total external debt service for 2017 amounted to GH¢7.5 billion, compared to an outturn of GH¢6.9 billion in 2016. Out of the total amount of external debt service for 2017, total principal repayment constituted GH¢4.8 billion, less than the programmed amount of GH¢6.0 billion due mainly to exchange rate effect.

The first Eurobond which was issued in 2007 was fully paid off in October 2017.

4.11 New Debt Commitments in 2017

In 2017, Government signed ten (10) loan agreements amounting to US\$506.8 million. Of this figure, six (6) loans amounting to US\$394.6 million were borrowed under non-concessional terms whilst two (2) loan agreements in the sum of US\$100.0 million were signed under concessional terms. Government also contracted two (2) domestic standard loans in the sum of US\$12.3 million.

4.12 Interest Payments Burden

The Committee was informed that interest payments now account for 35% of government revenue and 26% of expenditure. Interest payment was said to now constitute the second biggest expenditure item after compensation of employees. It was further explained that interest payment currently represents 6% of GDP as against an average of 5% in the sub-Region.

4.13 On-Lending Policy

As to whether the Government had stopped the policy of on-lending funds to Public Institutions and other loan beneficiaries where appropriate, Officials from the Ministry of Finance told the Committee that the policy is still on-going as provided by the Public Financial Management Act, 2016 (Act 921).

The List of On-Lending Agreements signed in 2017 were given as follows:

Table 4: On-Lending Agreements signed in 2017

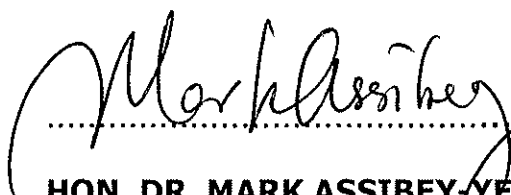
S/N	Borrower	Project Title	Agreement Date	Terms	USD Equivalent
2	Bui Power Authority	Bui Hydro Project	13/01/2017	Interest Rate: 2.75% p.a. Repayment Period: 15 years Grace Period: 5 years Payment Currency: Cedi equivalent of the USD	343,853,060.7
2	NITA	Rural Fibre Optic Backbone Link, Data Center and Provision of managed Services Project	29/05/2017	Interest Rate: 2.00% p.a. Repayment Period: 10 years Grace Period: 7 months Payment Currency: Cedi Equivalent of the EUR	43,060,102.5
	Total				386,913,163.2

4.13.1 Recommendations

- The Committee urges the Government to follow up and monitor the performance of these and all other on-lent facilities to ensure they are repaid by the beneficiary entities as and when they fall due.
- The Committee advises the Ministry of Finance to bring all on-lending agreements to Parliament for approval in accordance with article 181 of the 1992 Constitution of the Republic of Ghana and Sections 57(1)(c) and 67 of the Public Financial Management Act, 2016 (Act 921).

5.0 CONCLUSION

The Committee, having carefully scrutinised the Annual Public Debt Report, respectfully recommends to the House to adopt this report and approve the **Annual Public Debt Report for the 2017 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. DR. MARK ASSIBEY-YEBOAH
(CHAIRMAN, FINANCE COMMITTEE)



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EVELYN BREFO-BOATENG
(CLERK TO THE COMMITTEE)

7TH MAY, 2018

