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2021 Budget Statement – Public Debt Presentation

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Contents

Section 1 – Overview of the Ghanaian economy

Overview | Key Economic Indicators

USD 66.5b[1]
Provisional nominal GDP for 2020

76.7%
IMF projected public debt to GDP ratio for 2020. This is projected to hit 81.5% by the end of 2021

USD 5,652
GDP per head (on a PPP basis) in 2019

10.4%
End-of-period inflation for 2020

16%
IMF reported a budgeted deficit of 16% for 2020

USD 7.4b to USD 7.9b
Expected increase in international reserves from 2019 to 2022

30.4m[1]
Second most populated country in West Africa in 2019

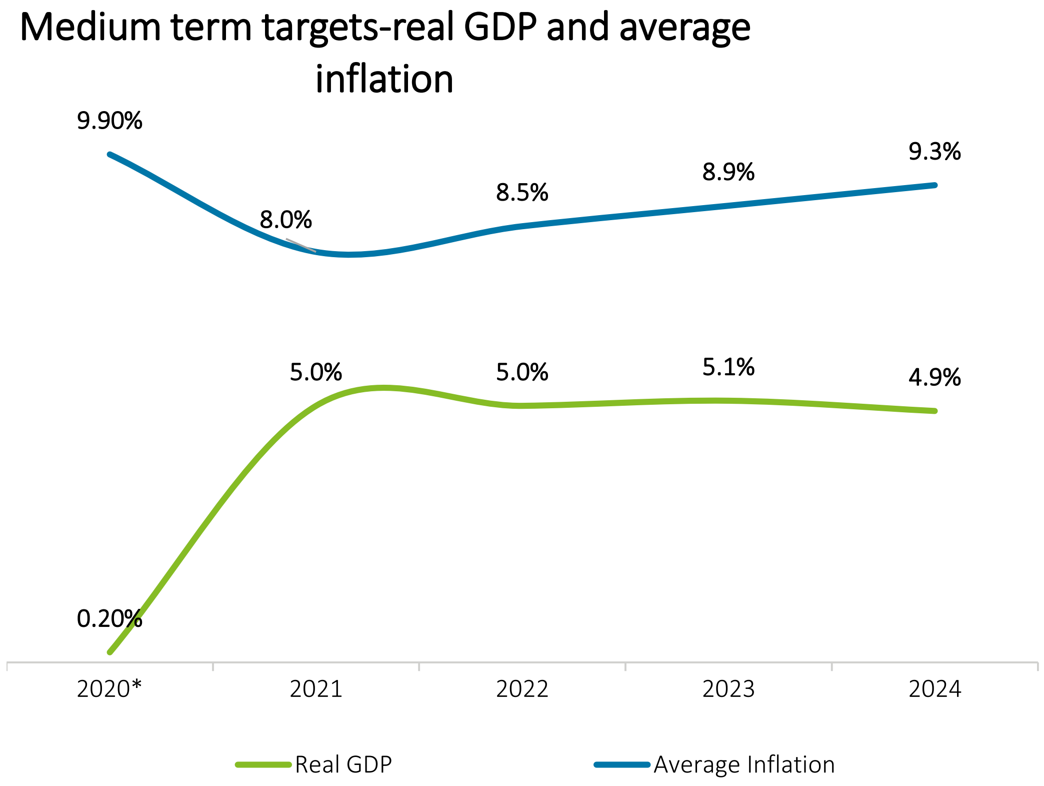
USD 14.5b[1]
Exports of goods (free on board) are expected to increase from USD14.5 billion in 2020 to USD 16.8 billion in 2025

11.7% to 14.5%
Central Bank budgeted revenue is expected to increase from 11.7% of GDP in 2020 to 14.5% in 2022

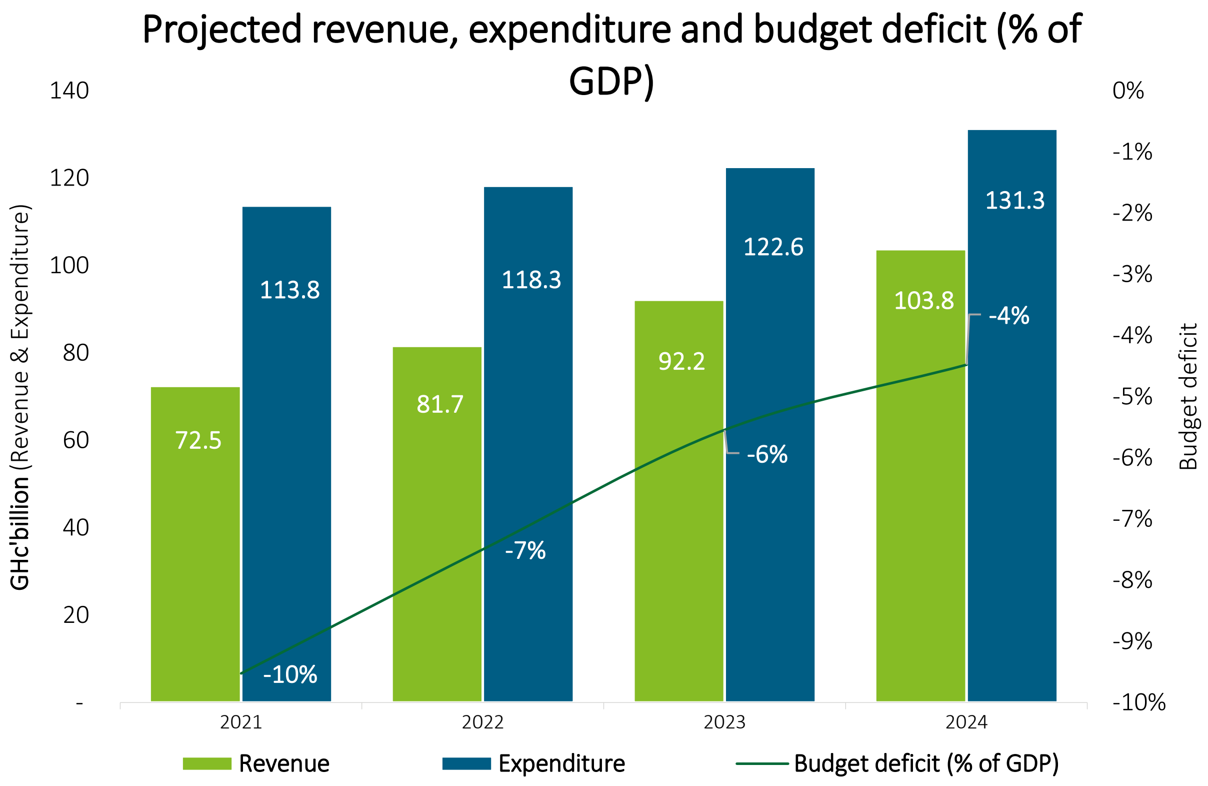
23.2% to 21.1%
Central Bank budgeted expenditure is expected to decrease from 23.2% of GDP in 2020 to 21.1% in 2022

Source: Economist Intelligence Unit (EIU) Country Report on Ghana, IMF

Overview | Key Economic Indicators

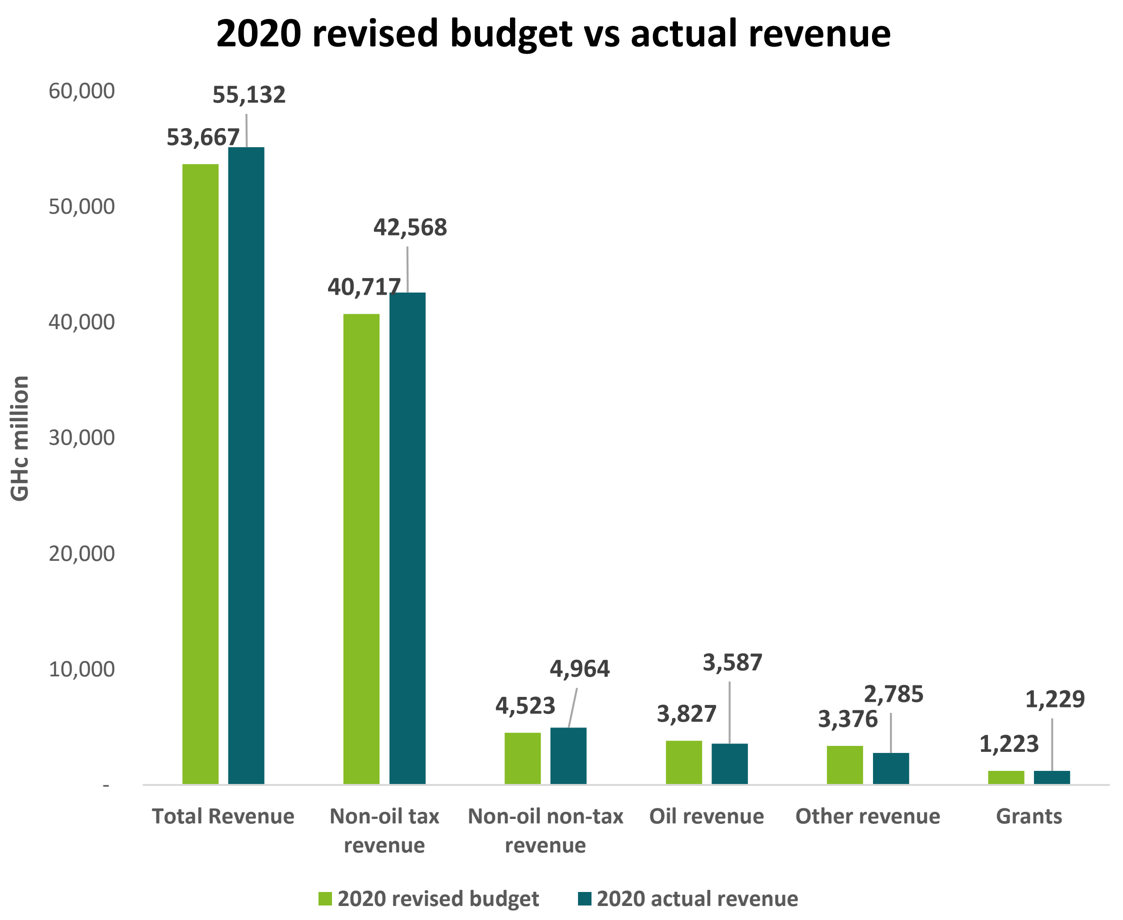


Source: 2021 Budget Statement and Deloitte analysis



Source: 2021 Budget Statement and Deloitte analysis

Economy of Ghana | Revenue



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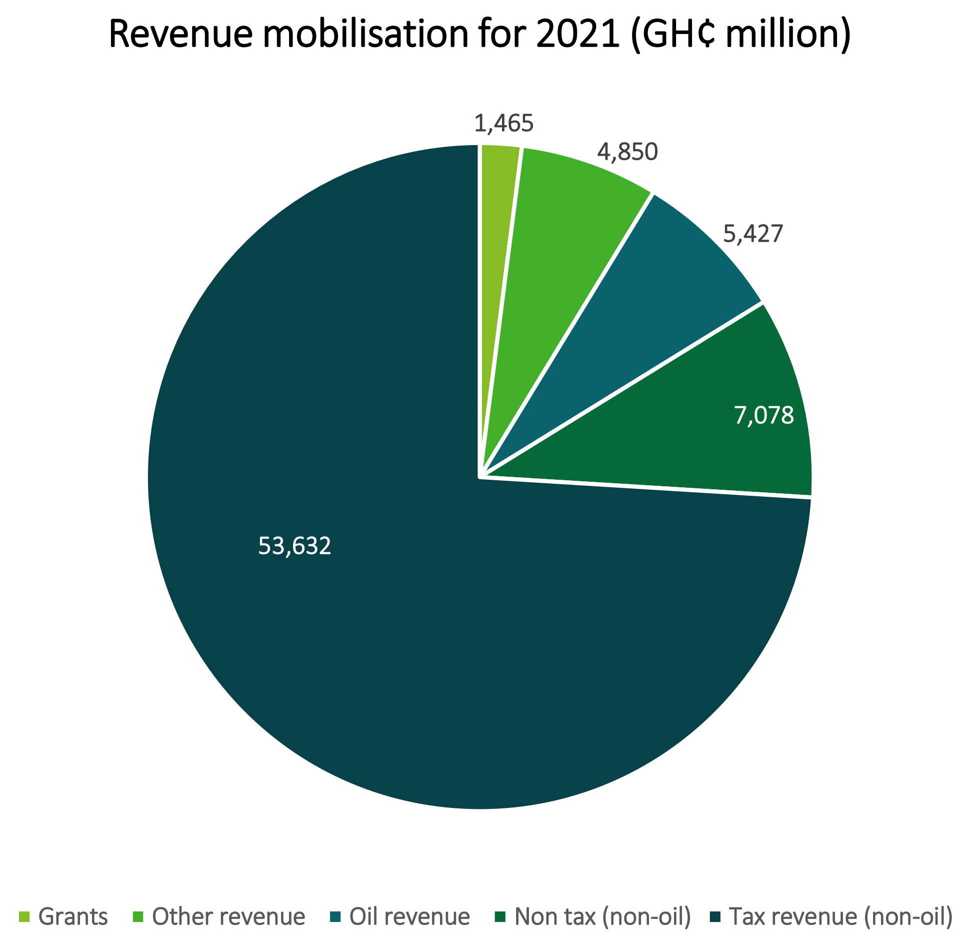
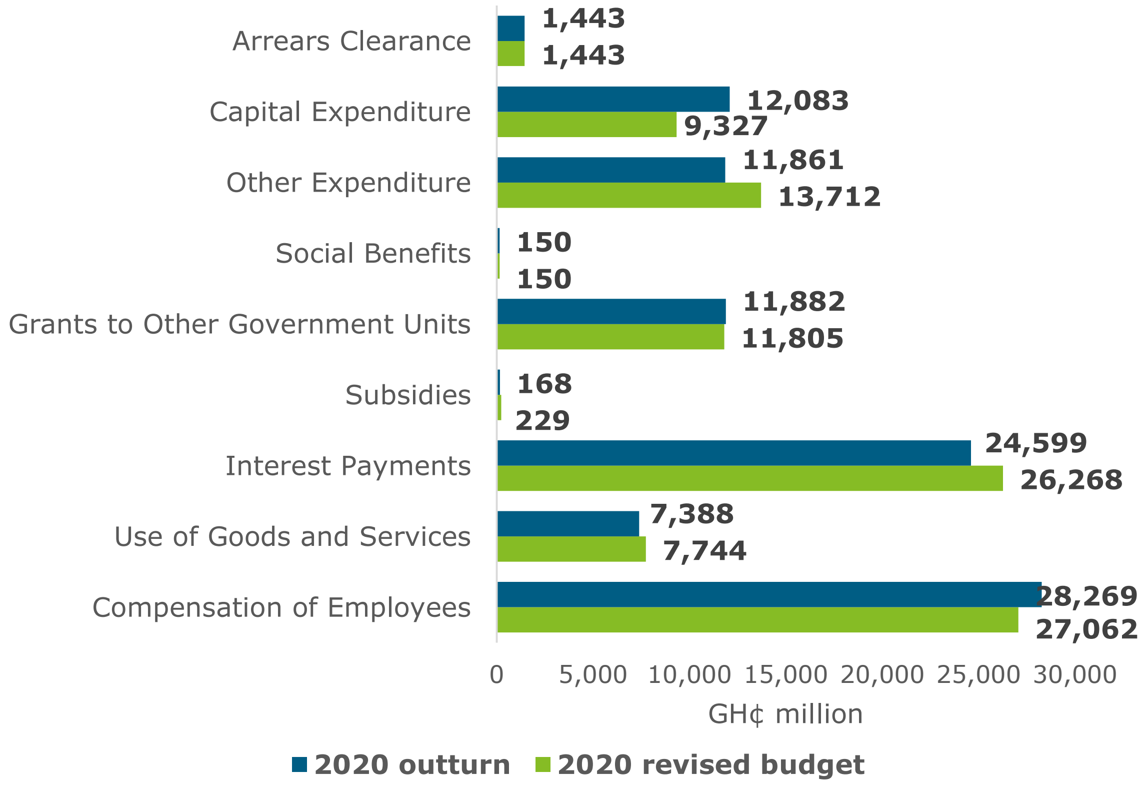


Source: 2021 Budget Statement and Deloitte analysis

Economy of Ghana | Expenditure

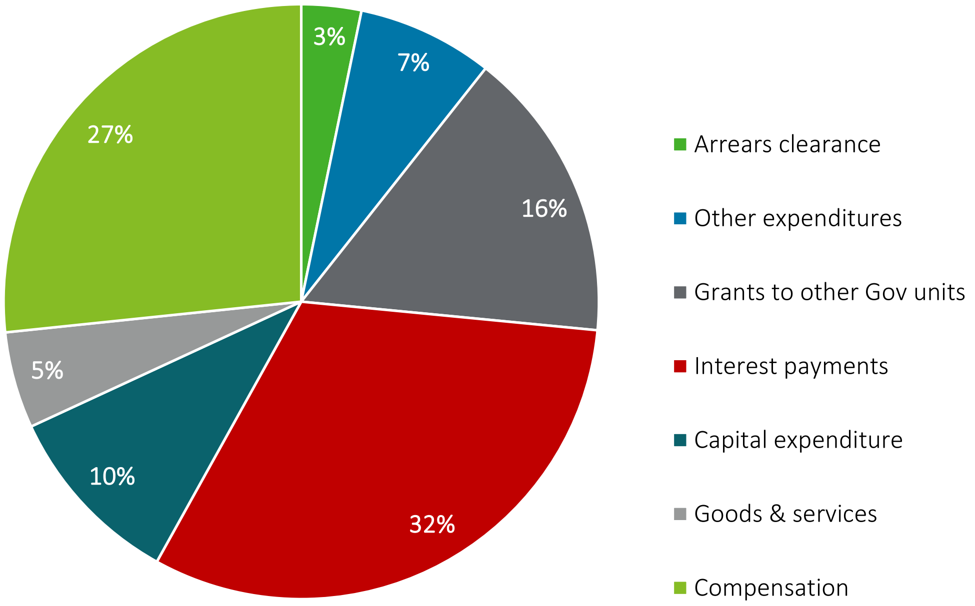
Revised Expenditure Budget (2020)
GH¢ 97.7 billion

2020 Expenditure Outturn
GH¢ 97.8 billion



Source: 2021 Budget Statement and Deloitte analysis

Resource Allocation (2021)



Interest payment is project to be the No 1 public expenditure in 2021

Source: 2021 Budget Statement and Deloitte analysis

Section 2 – Debt profile of Ghana

Debt profile of Ghana | Snapshot

Trend in Public Debt Growth (2016-2020)

Debt Stock

2016 (billion)	2020 (billion)
122.0 (56.9% of GDP)	291.6 (76.1% of GDP)

Reasons for Debt Increase

Financial sector clean-up

GH¢ 21 billion

Covid-19

GH¢ 19.7 billion

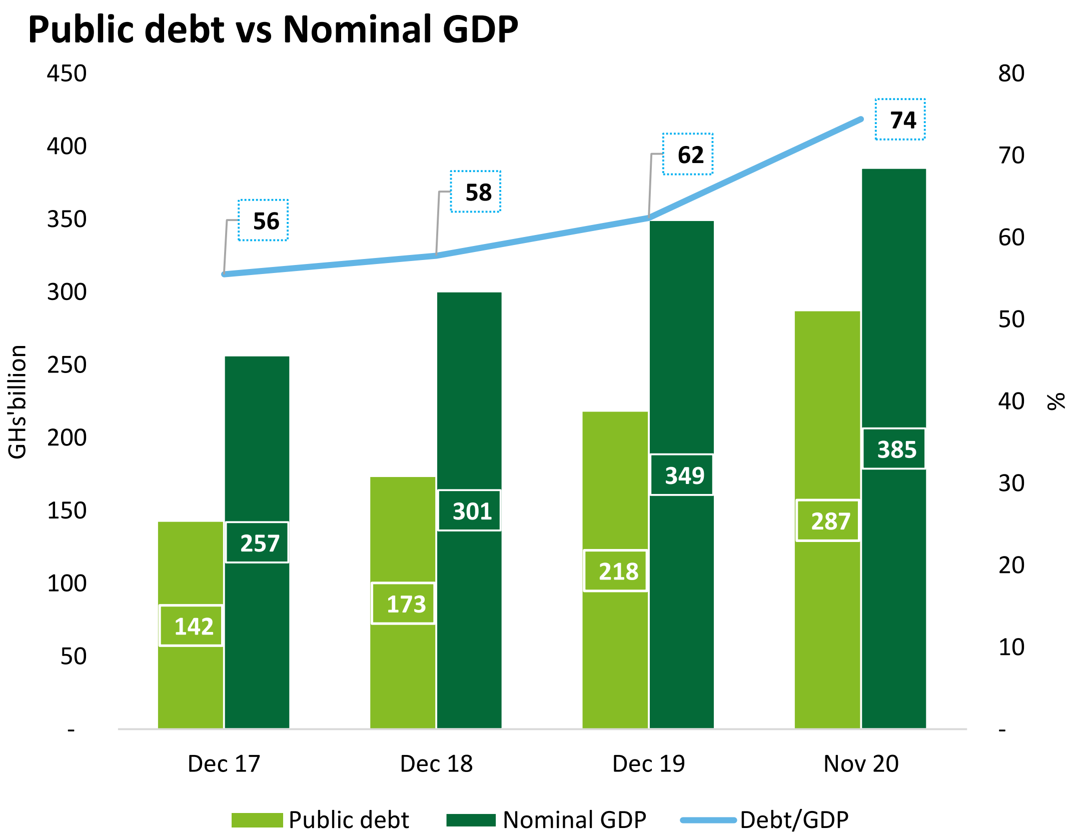
Excess capacity charges paid to IPPs

GH¢ 12 billion

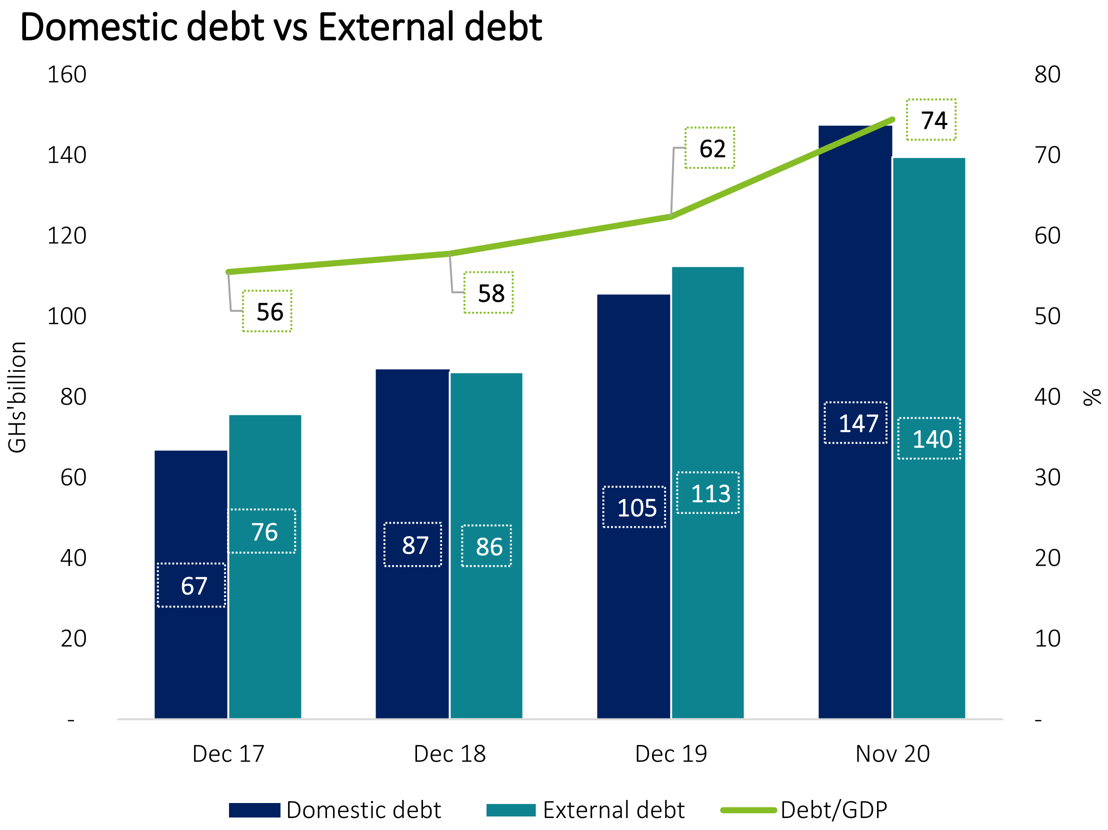
“Unexplained difference”

GH¢ 116.9 billion

Debt profile of Ghana | Public Debt Accumulation, 2017 – 2020 (2/2)



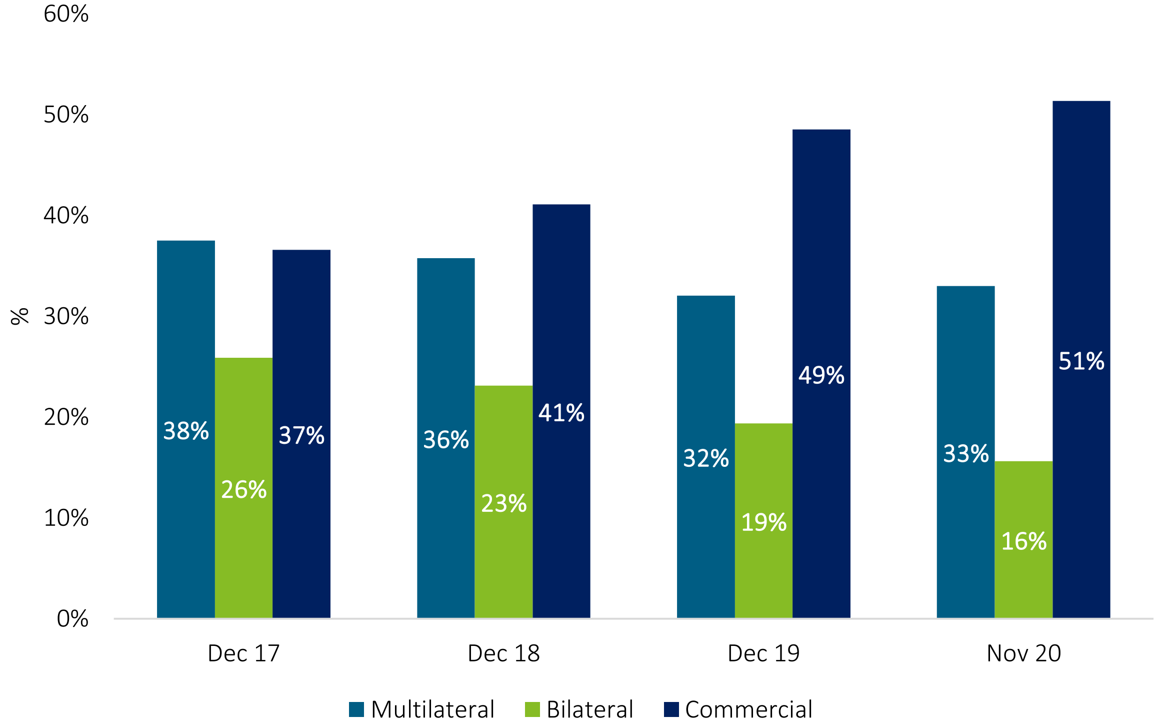
Source: Bank of Ghana (BoG) and Deloitte Analysis



Source: Bank of Ghana (BoG) and Deloitte Analysis

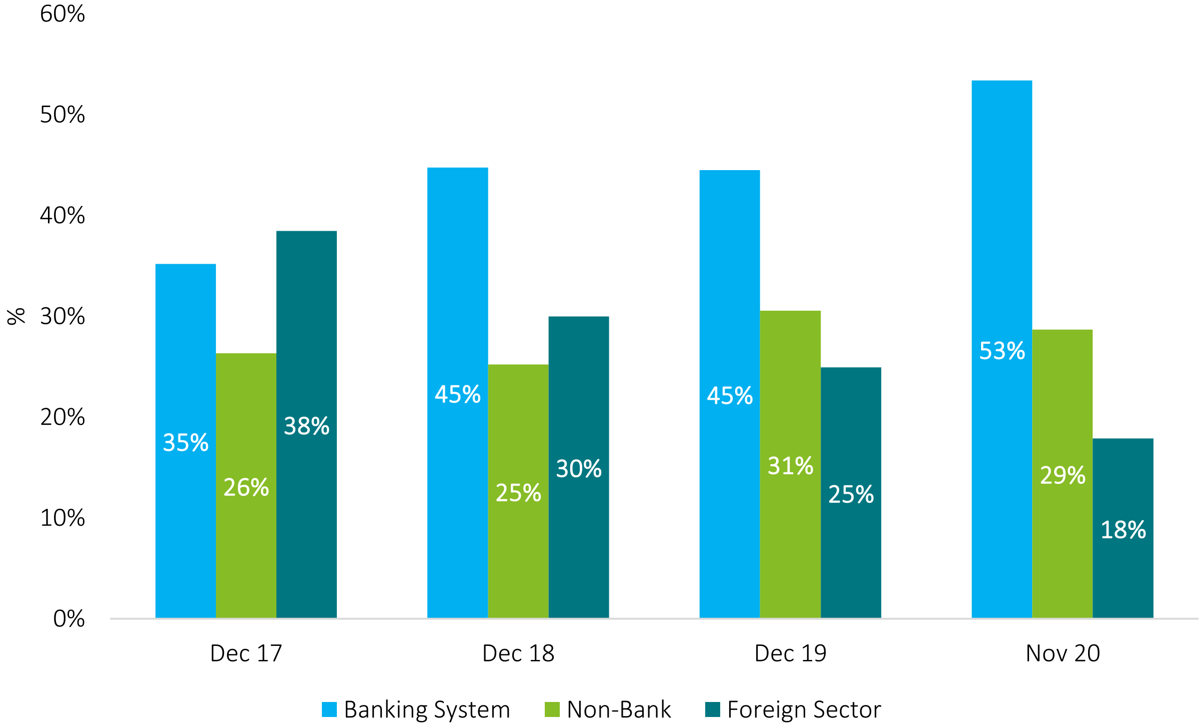
Debt profile of Ghana | Public Debt Accumulation, 2017 – 2020 (2/2)

Components of external debt



Source: Bank of Ghana (BoG) and Deloitte Analysis

Components of domestic debt



Source: Bank of Ghana (BoG) and Deloitte Analysis

Section 3 – Government Debt Management Strategies

Government Debt Management Strategies | Medium-Term Debt Management Strategy (MTDS)

Domestic Front

- Issue or reopen medium to long-term bonds.
- Treasury bills to serve as cash buffers.
- Manage daily liquidity as part of measures to bridge the gap between revenue collection and expenditure management.
- Reprofiling and reduction in cost in the domestic market as part of the liability management programme.

External Front

- Issue bonds on International Capital Market to finance growth-oriented projects and programmes.
- Carry out liability management operations for external bonds in 2021.
- To minimize the refinancing and rollover risks, the strategy is to buy back or exchange liabilities that pose these risks.
- Debt Limits for concessional and non-concessional external funding (including funding from the International Capital Market)

Government Debt Management Strategies | Effects of domestic borrowing

Crowding out private sector investment– High Interest rate

Domestic government borrowings lead to debt overhang in the long run. At a point interest rate become higher and crowding-out of private investments arise due to capital shortages.

Lack of available funds

Undue pressure on the economy, leading to lack of available funds to the private sector for business start-ups and expansion.

Negative effect on financial stability

It leads to pressure on institutional investors and banks to absorb "too much" government debt and this may have a negative effect on financial stability.

Maturity mismatches

Given that many developing countries are unable to issue long-term government securities at a reasonable interest rate, the resulting maturity mismatch can be worse than the currency mismatch associated with foreign debt

Government Debt Management Strategies | Effects of external borrowing

Relatively more expensive than domestic borrowing, especially when done through capital markets.

Exchange rate risk (unexpected devaluation) may increase the real value of debt payment as borrowed money is usually granted in foreign denomination.

If investment of external borrowings is misplaced and fails to achieve a decent rate of return, debt interest payments becomes strenuous

Continuous increase in external debt can discourage foreign and private investment due to concerns that the debt is becoming unsustainable.

Over-confidence in lenders to lend money in short-term without a proper evaluation of terms of borrowing and possible problems.

Section 4 – The Debt Service Suspension Initiative (DSSI)

The Debt Service Suspension Initiative (DSSI)| Overview (1/2)

- The Debt Service Suspension Initiative (DSSI) is the suspension of debt service payments by bilateral official creditors by poor and some developing countries that request for it.

- This initiative will temporarily ease the financing constraints for these countries and free up scarce money that they can instead use to mitigate the human and economic impact of the COVID-19 crisis.

Some Facts About DSSI

1st May, 2020

Effective date

USD 5 billion

Amount delivered in relief to over 40 eligible countries

73 countries

Number of countries eligible for the initiative

June 2021

Initiative was set to end on December 31,2020 but the date has been extended to June 2021.

Economy of Ghana | Debt service suspension initiative (DSSI) (2/2)

The DSSI only eases the debt repayment of a country in the short term. This means the debt burden participating countries is likely to compound in the medium-term leading to potential debt distress.

Advantages

- Opportunity for Government to manage and improve macroeconomic situation ahead of proposed borrowing from the International Capital Market (ICM).
- Opportunity for Government to use freed-up resources to increase social, health, or economic spending in response to the crisis/pandemic

Disadvantages/potential risks

- Loss of opportunity to access funding (liquidity) in the short term to support social, health and economic spending required to support the proposed economic recovery thereby potentially lengthening the expected recovery period post-COVID-19.
- Loss of opportunities to manage and improve macroeconomic environment in the short term.
- The perception (fear) of being downgraded by international credit rating agencies such as Moody, Standard & Poor’s, etc which could affect their credit worthiness.

Section 5 – Recommendations

Economy of Ghana | Recommendations

Reduce the level of domestic borrowing and rather improve efficiency by utilizing domestic debt for more productive economic activities, such as: promoting development in the financial sector to enhance private sector and investment growth.

Diversify sources of borrowing by seeking concessionary facilities from developing partners

Manage lending and borrowing better, by managing opportunities, costs and risks of different sources of borrowing

Increase accountability to check and improve the behaviour of borrowers and lenders (there must be debt transparency at the country level to expose 'hidden debts' such as contingent liabilities).

Explore alternatives sources of revenue eg widening the tax net and improving tax collection

Shocks and crisis are inevitable, but they can be managed better by employing capital account management techniques and utilizing the help of public development banks and other institutions to direct national savings towards longer term productive investment.

Thank You

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