Centre for Social Justice

A 20-YEAR REVIEW OF GHANA'S PUBLIC DEBT: TRENDS, DRIVERS, AND IMPLICATIONS

A Report by the Centre for Social Justice (CSJ)

A 20-YEAR REVIEW OF GHANA'S PUBLIC DEBT:

TRENDS, DRIVERS, AND IMPLICATIONS

CONTENTS

Foreword

CSJ's comprehensive analysis of the trends, drivers and implications, for Ghana's debt profile comes at a pivotal moment in the nation's economic history. The Ghana debt report is not a mere historical account of Ghana's debt profile, delinked from current economic realities. It is historical to the extent that its far-reaching recommendations take account of long-standing practices over 20 years that ought to be tackled in the quest for sustainable economic growth. It is also current in that it provides a rich analysis of the debt implications of government's policies and practices on Eurobonds, free SHS education, E-levy, ability to meet ECOWAS convergence criteria, among other considerations.
With an unprecedented debt to GDP ratio of 78%, slower economic growth, and global economic uncertainties, Ghana's progress to sustainable growth and development is at serious risk. And projected to worsen.

Currently, Ghana ranks among the top 10 countries in sub–Saharan Africa with the highest debt to GDP ratios and the debt to GDP is projected to reach 85 percent by 2023. Consequently, Ghana has been classified as being at a high risk of debt distress in the debt sustainability analysis of the International Monetary Fund (IMF) and World Bank. High debt levels are not so worrying if accompanied by disciplined investments in the productive sectors of the economy. Against this backdrop, the managers of Ghana's economy have failed to positively distinguish themselves with a significant portion of government expenditure being non-discretionary - made up of alarmingly rising public sector wage bill and interest payments. Reigning in public expenditure appears to remain an unattainable goal with revenues systematically failing to keep pace with expenditures, resulting in steady fiscal deficits.

Whenever the debt to GDP for a developing country hits 60%, the IMF defines a so-called debt overhang, characterized by declining domestic and foreign investments, lower living standards, and increasing interest rates that crowd out investments in the private sector and further hurting economic growth. From a social justice perspective, we are equally concerned about the dire implications of the worsening economic situation on the economic fortunes of the socially disadvantaged. With governments likely to cut expenditures and increase domestic revenue mobilization efforts, there is always a risk to public spending that affects poverty-reducing social sectors. Since 2015, the interest expense on public debt has exceeded health and education expenditures. Currently, health expenditures are less than 10 percent of total government expenditures, falling from about 29.5 percent in 2011 to 7.6 percent in 2020. Education expenditures have also declined, falling from 20 percent in 2015 to approximately 15 percent in 2020.

Given the above context, the short and medium-long term recommendations proffered in this report are both thoughtful and refreshing. Included in these recommendations are fiscal consolidation through significant reduction in the political and public sector bureaucracy and increased cooperation with development partners to enhance responsibility, transparency, and mutual accountability in lending practices, to minimize inefficiencies in borrowed funds. Once again, CSJ's Finance and Economy pillar has outdone itself with another high-quality report with far reaching policy implications for the effective management of Ghana's economy. On behalf of Council, I congratulate Professor Theresa Mannah-Blankson and her committed team made up of Haruna Alhassan, Dengba Tobiga, Naa Adokarley Addy and Florentina Kemevor. I could not agree more with your concluding paragraph:

"Ghana currently faces significant developmental challenges, and the current financing framework, over-reliance on high-cost debt, mostly non-concessional, is unsustainable. As a result, there is an urgent need for the country to adopt an effective financing framework to meet the current challenges. There are no easy solutions for moving the country towards a sustainable debt path. However, a new financing framework that ensures debt sustainability would put the country on the path of steady progress towards attaining the Sustainable Development Goals and boost resilience even when future economic challenges emerge."
We also silently acknowledge all those comrades without whose efforts we could not have accessed relevant data for this report.

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INTRODUCTION

Ghana's macroeconomic performance over the last few decades and leading up to the COVID-19 pandemic was touted by our development partners as impressive. Before the pandemic, Ghana posted historically high levels of growth; an average of 5.4 percent from 2000 to 2009 and an average of 6.8 percent from 2010 to 2019. Between 2010 to 2019, Ghana was consistently ranked in the top ten fastest-growing economies in the Sub Saharan Africa (SSA) sub-region. While the economy has grown substantially in recent decades, the average Ghanaian income, as measured by real Gross Domestic Product (GDP) per person, has grown an average of 1 percent per year over the past 60 years. At this rate of income growth, it will take roughly ten more years for Ghana's average income in 1960 (US$1,110) to double (reach US$2,220).

The pace of economic growth over the past decade was primarily driven by strong growth in the prices and production of major export products. This led to a reduction in the population living in extreme poverty and resulted in the country moving to lower-middle-income country status (World Bank, 2020). While there has been improvement, it is worth mentioning that approximately 30 percent of the Ghanaian population lives on less than $3.20 a day at 2011 international prices. The recent macroeconomic gains made over the past decade and the potential for greater income growth are being challenged by the rapid increase in public debt and relatively slower economic growth due to the COVID-19 pandemic.

The rapid increase in the public debt, slower economic growth, and global economic uncertainties pose significant challenges for Ghana and put the country's progress toward sustainable growth and development at risk. Despite the advances in social development , the nation's potential is still constrained by insufficient investment in public infrastructure and social services, particularly in rural areas. Domestic revenue is insufficient for recurrent expenditure and investments. If the current trend in debt accumulation is not truncated, it could be challenging to facilitate the necessary socio-economic development without putting the nation at risk of a sovereign debt crisis.

This report provides an analysis of Ghana's public debt from 2000 to quarter one of 2022. It specifically reviews the trends, patterns, and drivers of the recent debt accumulation and outlines potential strategies to reduce the adverse impact on the economy and ensure sustainable financing of development. There are rising concerns about a looming debt crisis on the African continent, and Ghana's current debt situation has led to its classification as being at a high risk of debt distress in the debt sustainability analysis of the International Monetary Fund (IMF) and World Bank.

[1]Based on the Rule of 70.

[2]Table A2 and A3 in the Appendix.

This report utilizes data from the World Bank, IMF, Ghana Ministry of Finance, and Bank of Ghana. The following are the general findings of the report:

- Ghana has reported a significant rise in domestic and external debt over the last few years.
- The public debt to GDP ratio was 80 percent by the end of the first quarter of 2022, a level not seen post-HIPC .
- The rapid debt accumulation over the past few years can be explained by internal and external factors.
- The acceleration of debt accumulation in Ghana has generally coincided with the following:

1. a persistent fiscal deficit;
2. a saving-investment gap;
3. a deteriorating current account in addition to currency depreciation and terms of trade shock;
4. the search for higher yields by foreign investors, all of which have been exacerbated by the crystallization of contingent liabilities arising from the energy sector bonds;

5. additional cost from the financial sector bailouts;

6. the economic fallout from the COVID-19 pandemic;

- Revenue mobilization efforts have not kept pace with the rapid debt accumulation in recent years.
- The overall cost of debt service has been increasing due to an increase in non-concessional borrowing and the high cost of private short-term loans, including domestic and Eurobonds.
- The IMF/World Bank debt sustainability assessment (DSA) lists Ghana among countries at a high risk of debt distress.

Without successfully implementing vigorous measures aimed at fiscal consolidations, the country's current debt situation poses a significant risk to both pre-pandemic economic momentum and the ability to attain the Sustainable Development Goals (SDGs) by 2030. Caution is needed when comparing our current debt to GDP ratio to emerging, and advanced economies since those countries often borrow in their own currency at lower rates. The current debt situation requires all stakeholders, including the government, our lenders, development partners, and civil societies, to rally together to devise the necessary measures needed for fiscal consolidation before the situation deteriorates into a full-blown sovereign debt crisis.

There are no easy solutions to the current debt situation. Costly long-term solutions, often unpopular politically, are required to restore Ghana's debt to sustainable levels and put the country on the path toward sustained growth and improved living standards over the long term. It is encouraging that the government has announced a 20 percent cut in expenditures in the 2022 budget. This was in response to the debt and fiscal sustainability concerns raised about Ghana and the subsequent downgrading of the country's credit ratings. From a social justice perspective, it is of critical importance to ensure that expenditure cuts do not target social expenditures such as health care, education, and poverty-reduction programs. Identifying ways to increase domestic revenue and restructure current debts is equally important.

The remainder of this report is structured as follows: Section 2 reviews the socio-economic performance in recent decades; Section 3 examines the public debt accumulation over the past two decades, focusing on the trends, patterns, and drivers; Section 4 discusses the implications of debt accumulation for the economy; Section 5 discusses debt sustainability; Section 6 concludes with some policy recommendations.

[3] Ghana's decision and completion points in the Highly Indebted Poor Countries (HIPC) initiatives was in 2002 and 2004, respectively.

2. Economic and Social Development
2.1 Incomes and Growth: A Comparative Analysis

Over the past 60 years (1960-2020), average income as measured by real GDP per person has grown by approximately 1 percent per year (Table 1).

The implication of this average growth rate per year over the last 60 years is profound. The rule of 70 helps to understand growth rates and the effects of compounding. According to the rule of 70, if some amount grows at a rate of x percent per year, that amount doubles in approximately 70/x years.

So, when average income grows at 1 percent per year, it takes 70 years to double.

At the current pace of annual income growth, it will take approximately ten more years (by 2030) for Ghana's average income in 1960 ($1,110) to double (i.e., reach $2,220).

A comparative analysis of countries in the sub-region reveals that Ghana has done poorly over the last six decades in average income performance
(Table 1).

Table 1. Incomes and Growth: A Comparative Analysis

Country Name	Real GDP Per Person (In 2015 dollar)			Growth Rate (per year)	
	YR1960	YR2019	YR2020	Period: 1960–2019	Period: 1960–2020
Botswana	358	7,027	6,299	5.0	4.8
Seychelles	3,164	15,914	14,079	2.7	2.5
Lesotho	231	1,096	983	2.6	2.4
Burkina Faso	242	738	732	1.9	1.8
Rwanda	345	886	834	1.6	1.5
Kenya	751	1,600	1,560	1.3	1.2
Malawi	179	401	394	1.4	1.3
Sudan	991	1,199	1,128	0.3	0.2
Gabon	3,387	7,116	6,818	1.3	1.2
Togo	339	631	627	1.1	1.0
Ghana	1,154	2,054	2,019	1.0	0.9
Sub-Saharan Africa	1,125	1,657	1,582	0.7	0.6
Lower middle income	618	2,373	2,261	2.3	2.2

Source: Authors' Calculations using data from World Bank, World Development Indicators

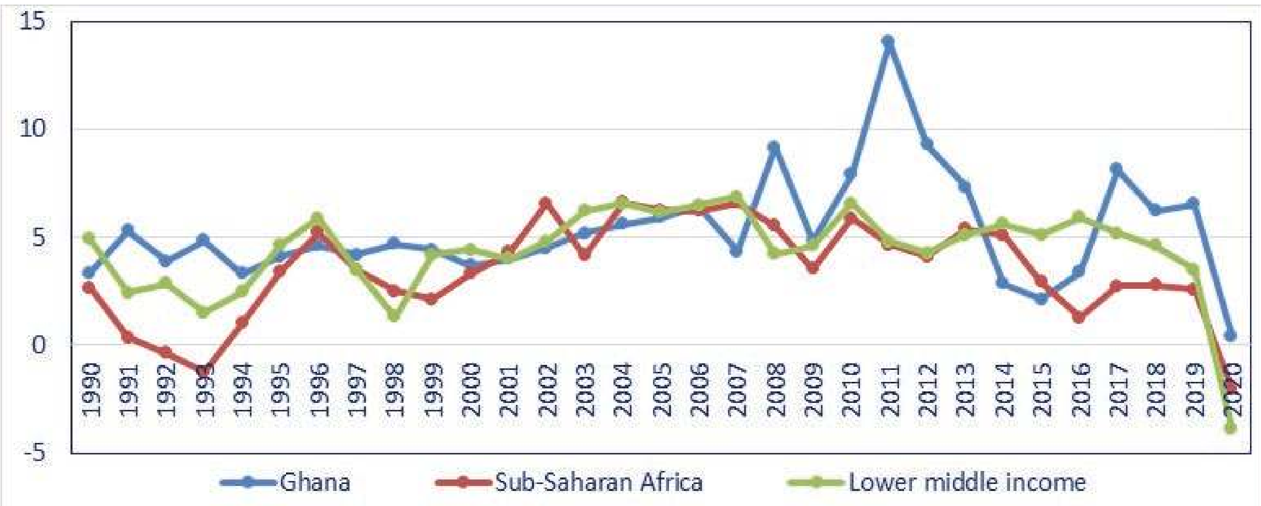
However, it may be noted that the 2018 assessment of Ghana's growth performance by the African Development Bank placed Ghana within the category of countries with a single growth acceleration between 2004 and 2014 (AfDB, 2018). Growth acceleration refers to an increase in per capita (i.e., income per person) growth of 2 percentage points or more, with the observed increase in growth sustained for at least eight years and the post-acceleration growth not less than 3.5 percent per year (Hausmann et al., 2005).

Furthermore, to eliminate cases of pure recovery, the authors argue that the post-acceleration output level must also exceed the pre-episode output level. Against this background, we evaluate Ghana's economic and social performance over the last three decades.

2.2 Economic Growth

Ghana's pre-pandemic levels of growth were historically high, averaging 5.4 percent from 2000 to 2009 and 6.8 percent from 2010 to 2019. From 2010 and 2019, the country's growth rates consistently placed it in the top ten fastest-growing economies in the SSA sub-region. However, the economic downturn due to the COVID-19 pandemic caused Ghana's 2020 real GDP growth to be 0.4 percent, down from 6.5 percent in 2019 (Figure 1 & Table 2).

Figure 1. Real GDP Growth



Source: World Bank, World Development Indicators

It is worth mentioning that widening current account and budget deficits, rampant inflation, and a depreciating currency resulting from uncontrolled government spending over a sustained period led to slower GDP growth from 2014 to 2016. Excluding the low GDP growth rate of 0.4 percent in 2020, in 2014 and 2015, the country posted its slowest growth rates since 1983.

Real GDP per person, which averaged US$919 between 1990 and 1999, increased to an average of US$1703 from 2010 to 2019, reaching US$1,941 in 2020 (Table 2). Over the past two decades, the increase in average income was driven by the noteworthy economic performance in 2008, 2010, 2011, 2012, 2013, and 2017.

The rebasing of the economy in 2010, coupled with the steady growth in GDP, led to Ghana's classification by the World Bank as a lower-middle-income country by July 1, 2011 (World Bank, 2011). Ghana recorded a GDP growth of 5.4 percent for 2021, exceeding the projected target of 4.4 percent (Ministry of Finance, 2022).

Table 2. Economic Growth and Social Indicators

Ghana: Economic and Social Indicators	*Averages*			
	1990-1999	2000-2009	2010-2019	2020
Gross Domestic Product				
GDP growth (annual %)	4.3	5.4	6.8	0.4
GDP per capita (constant 2015 US$)	918.7	1,126.8	1,703.3	1,940.7
Poverty				
Poverty gap at $3.20 a day (2011 PPP) (%)	31.6	19.2	10.8	-
Poverty headcount ratio at $3.20 a day (2011 PPP) (% of population)	69.7	48.0	30.1	-
Health Indicators				
Current health expenditure (% of GDP)	5.2	3.6	4.1	1.9
Mortality rate, under-5 (per 1,000 live births)	115	84.9	56.6	-
Education Indicators				
Government expenditure on education, total (% of GDP)	4.1	6.0	5.3	3.8
Government expenditure on education, total (% of government expenditure)	14.9	22.1	24.0	
School enrollment, secondary (gross), gender parity index (GPI)	0.7	0.9	0.9	1.0
School enrollment, secondary (% gross)	35.2	40.0	66.3	77.7

Source: World Bank (African Development Indicators and World Development Indicators).

2.3 Poverty Reduction

Economic growth is considered the most powerful tool for reducing poverty ***(Adams, 2003; Ravallion & Chen, 1999).*** An influential study of 14 countries, including Ghana, identified growth as the primary driver of poverty reduction ***(World Bank, 2005).*** The paper argues that, on average, a one percent increase in per capita income reduced poverty by 1.7 percent. Further, changes in labor income have been identified as accounting for nearly half the reduction in poverty in Ghana between 1998 and 2005 ***(Azevedo et al., 2013),*** with education being the primary determinant of the level of earnings and its growth ***(Falco et al., 2014).*** Indeed, the population living in poverty dropped significantly from 70 percent during the 1990s to 30 percent over the 2010 to 2019 period (Table 2). However, sustaining growth is essential for Ghana to achieve the sustainable development goal of eradicating poverty by 2030. A country's inability to sustain growth over a long period will pose a challenge for eradicating poverty.

It is important to note that both the pace and pattern of growth matter for poverty reduction ***(DFID, 2008).*** In particular, the participation of the poor in the growth process is considered essential for reducing poverty. In the case of most developing countries, the agricultural sector employs most of the poor, most of whom are also women (World Bank, 2017). Hence, policies targeting agricultural productivity and women would be critical for poverty reduction and necessary for structural transformation.

Honorati and Johansson de Silva (2016) argue that unlocking Ghana's agricultural potential will require infrastructure investments, particularly irrigation schemes and modern production methods. The case of the green revolution in lifting millions out of poverty in Asia provides sufficient evidence about the important role of agriculture in poverty reduction. Higher productivity in agriculture is also an essential determinant of the pace of structural change as productive resources, including labor, move out of agriculture to other more productive sectors, thereby improving overall economic growth (*Honorati & Johansson de Silva, 2016). Molini and Paci (2015)* have also argued that sustained poverty reduction in Ghana requires a commitment to reducing inequality and improving access to opportunities for all citizens. Despite progress made in reducing inequality, significant regional and gender disparities remain.

2.4 Developments in Education and Health

There have been notable gains in education. Total government expenditure on education as a percent of GDP, which averaged 4.1 percent in the 1990s, is now in a comfortable range, averaging 6 percent and 5.3 percent during the 2000-2009 and 2010 – 2019 periods, respectively (Table 2). Indeed, the Education 2030 Framework for Action proposed two benchmarks as 'crucial reference points': allocate at least 4 percent to 6 percent of GDP to education and at least 15 percent to 20 percent of public expenditure to education ***(Unesco, 2016).*** Average government expenditure on education as a percent of government expenditure for the last two decades has remained well above the recommended thresholds (Table 2).

Despite government expenditure on education remaining above the recommended thresholds, Ghana's educational outcomes, such as enrollment, completion, and literacy rates, lag behind countries with comparable or even lower educational expenditures (Table A3). This development suggests that the mere level of expenditure, though necessary, is not as important as the outcomes resulting from the spending. *Kwakye (2012)* reports that a disproportionately high percentage of expenditure on education goes to the payment of salaries relative to school facilities, resulting in adverse effects on the quality of education.

Modest gains have been recorded in the area of health over the last three decades. Ghana has improved the under-5 mortality rate (per 1,000 live births), with the average rate declining from 115 in the 1990s to 56 over the 2010-2019 period (Table 2). The under-5 mortality rate for Ghana in 2019 was 46, slightly lower than the 49 recorded for the lower-middle-income group of countries4. Health expenditure as a percent of GDP has decreased from an average of 5.2 percent during the 1990s to 4.1 percent over the 2010 – 2019 period (Table 2). The current average of 4.1 percent is similar to the average for the lower-middle-income countries and lower than the SSA region of 5.1 percent.

2.5 Other Macroeconomic Indicators

CPI inflation

Prudent monetary policies implemented by the Bank of Ghana since 2017 anchored CPI inflation expectations to stable levels, which resulted in single-digit inflation in 2018 and 2019 (Table 3). However, the fallouts from the COVID-19 pandemic resulted in double digits inflation by the end of 2020. By April 2021, the CPI inflation had returned to a single digit, reaching 8.5 percent. However, these gains have been derailed primarily by global supply chain disruptions and a domestic surge in food prices, as the CPI inflation reached 12.6 percent by December 2021. The Bank's core inflation (excluding energy and utility) also increased from 8.6 percent in April 2021 to 11.8 percent as of December 2021 (Table 3). By April 2022, headline inflation reached 23.6 percent.

Table 3. Price Developments

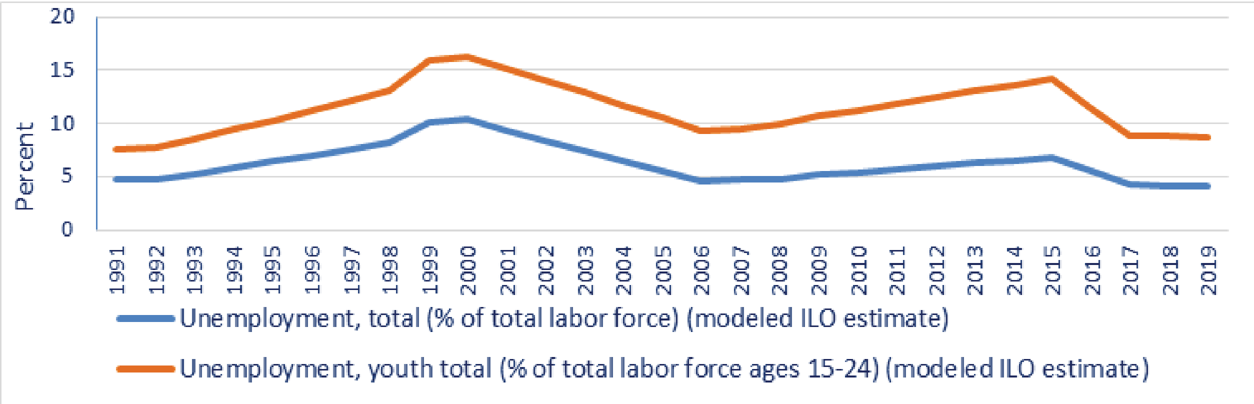
In Percent	Dec-17	Dec-18	Dec-19	Dec-20	Apr-21	Dec-21	Apr-22
Annual Consumer Price Inflation (%)							
All Consumer Prices	11.8	9.4	7.9	10.4	8.5	12.6	23.6
Food Prices	8.0	8.7	7.2	14.1	6.5	12.8	26.6
Non-Food Prices	13.6	9.8	8.5	7.7	10.2	12.5	21.3
Annual Consumer Price Inflation (excl. energy & utility)							
Core 1	12.6	10.4	6.4	10.9	8.6	11.8	22.3

Source: Bank of Ghana

Unemployment

Ghana's unemployment rate witnessed a dramatic decline from 10.4 percent in 2000 to 4.6 percent in 2007 (Figure 2). At the start of the financial crisis in 2008, unemployment remained at a reasonable rate of 4.7 percent. However, the unemployment rate began a steady rise from 4.7 percent in 2008 and stayed around 7 percent from 2013 to 2016, and has since fallen to about 4 percent (Figure 1).

Figure 2. Ghana's Unemployment Rate, 1991 –



Source: World Development Indicators

Relative to 2010, unemployment has improved for all groups in 2019 (Figure 3). There is less variation in the unemployment rates by gender; however, youth unemployment has remained significantly high (Figures 2 and 3). The gap between the overall unemployment and youth unemployment rates which widened from 2008 to 2015, has narrowed (Figure 2).

However, a caution about the unemployment data is in order. Ghana's unemployment data is spotty, and the ILO modeled estimates may not provide an accurate picture of the situation on the ground. A recent report by the World Bank estimates that youth unemployment is about 12.6 percent, with more than 50 percent underemployment, higher than overall unemployment rates in the SSA region (Dadzie et al., 2020).

Tackling the worsening youth unemployment would require concerted efforts from all stakeholders. The new 2030 Agenda for Sustainable Development highlights the need to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all and would need to harness the benefits from upgrades in technological innovations and creativity, diversification, and improved access to financial services (Desa, 2016).

The 2020 agenda of the United Nations, which aims to develop and operationalize a global strategy for youth employment, would be required for any domestic efforts aimed at tackling the youth unemployment problem.

[4]The unemployment rates are the modelled estimate sources from the International Labor Organization (ILO), ILOSTAT database and reported in the World Bank Online Database.

Figure 3. Unemployment Rates by Gender in 2000, 2010, & 2019 (national estimates[5])

Source: World Development Indicators

2.6 Challenges: Domestic and External Factors

The modest gains in Ghana's recent economic growth and relatively stable prices, pre-COVID-19, occurred despite challenges from domestic and external factors. Unless otherwise indicated, the analysis in this section primarily utilizes information from the budget statements issued by the MoF and Bank of Ghana reports.

Domestic Factors

The importance of electricity in economic growth and development cannot be overstated.

One major domestic challenge that Ghana has faced over the last two decades is the power supply, which has impacted Ghana's economic growth over the period. Between 2006 and 2016 alone, the demand for electricity in Ghana increased by about 52 percent (Kumi, 2017).

However, the supply of electricity is yet to keep up with this high demand. The supply constraints have led to the perennial electricity crisis, a situation characterized as "dumsor" by locals, literally meaning "off-on." In 2015 alone, Ghana experienced 159 days of a blackout. Estimates based on a 2014 study undertaken by the Institute of Statistical Social and Economic Research at the University of Ghana suggest that Ghana lost about US$680 million (2 percent of GDP) in 2014 due to the electricity crisis (Kumi, 2017).

From 2017 to date, two main domestic developments are worth noting, the cost and implications of the financial sector clean-up and the expanded tuition-free high school for all program initiated by the current government.

Financial Sector Clean-up

Due to poor governance and weak regulatory oversight, which occurred mainly between 2012 and 2016, significant vulnerabilities emerged in the Ghanaian financial sector. This development necessitated the financial sector "clean-up" in 2017. The financial sector clean-up has involved a recapitalization of the industry and safeguards for depositors' funds.

[5] The 2019 data is based on ILO modeled estimates.

This development follows the revocation of the licenses of 9 insolvent universal banks, 347 microfinance companies, 39 microcredit companies, 15 savings and loans companies, eight finance house companies, and two non-bank institutions by the central Bank of Ghana (Bank of Ghana). The 2019 mid-year budget review by the Ministry of Finance (MoF) estimates the cost of the financial sector clean-up to Ghanaian taxpayers to be at least US$3 billion, equivalent to 4.6 percent of Ghana's
GDP .

Expanded tuition-free high school for-all program

A new government program, tuition-free high school for all, part of a broader effort by the current government to make Ghana globally competitive in many areas of the Ghanaian society, including education, tourism, and agriculture, has not only increased government education expenditures but has also raised questions about its sustainability in the longer term. The new program cost GH¢899.5 million (US$186.5 million) in the 2017/2018 academic year, its first year of implementation, reaching GH¢2.9 billion (US$549 million) for the 2019/2020 academic year. A total amount of GH¢7.6 billion (US$1.4 billion) has been allocated over the program's first five years.

External Factors

A combination of factors, such as volatility in global financial markets, weaknesses in global growth, particularly in Brazil, China, and India, and commodity price shocks in the last decade are also partly to blame for macroeconomic imbalance in Ghana and most other African countries.

Terms of Trade Shock: Period 2011 - 2016

After experiencing a sustained rise from the early 2000s, commodity prices slumped from 2011, with the slump becoming severe by mid-2014 (Sub-Saharan Africa, 2016). The global financial crisis and recession in most advanced economies from 2008 to 2010 led to the subsequent decline in global commodity prices. Between June 2014 and February 2016, crude oil prices fell by approximately 70 percent. By 2011, the metal commodity price index had declined by 35 percent (Sub-Saharan Africa, 2016). For Ghana specifically, commodity exports account for approximately 75 percent of total merchandise exports (MoF).

The terms of trade shock from the drop in commodity prices negatively impacted the trade balance and current account balance, leading to a significant depreciation of the cedi. As a result, the trade balance and current account balance both reached deficits of 4.6 percent of GDP and 6.6 percent of GDP, respectively, by December 2016, while the cedi depreciated against the U.S. dollar by 34 percent and 16 percent in 2014 and 2015, respectively (World Bank, 2018). Data from the Bank of Ghana shows a depreciation of 9.7 percent by December 2016 (Table 4).

Fiscal Consolidation Efforts and External Sector Developments[8] : 2017 to early 2020

Fiscal consolidation efforts from 2017 preceded a recovery of the Ghanaian economy from the terms of trade shocks that partly contributed to the abysmal economic performance recorded from 2011 to 2016. Data from the Bank of Ghana show an improvement in the trade balance and a substantial narrowing of the current account deficit by 2019. The trade balance stood at 3.4 percent of GDP by December 2019, up from the -4.2 percent recorded for December 2016, while the current account balance improved substantially from a deficit of 6.6 percent of GDP in December 2016 to a deficit of 2.5 percent of GDP by December 2019 (Table 4). The narrowing of the current account deficit to US$1.7 billion (or 2.5 percent of GDP) in 2019 was due to the improvement in the trade surplus, together with improvements in net current transfers, especially remittances.

[6]The GDP figure for Ghana in 2018 prices.
[7]Author's estimation based on information from the budget statement. The number of beneficiaries is estimated to reach 1,264,000 with the addition of the third cohort and the cost per student annually is estimated at GH¢2,312.

Table 4. External Sector Developments

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Trade Balance (USD mln)	−1773	1188	1809	2298	2043	1107
Trade Balance (% of GDP)	−4.2	2	2.8	3.4	2.8	1.6
Current Account Balance (USD mln)	−2832	−2003	−2044	−1712	−2135	−2500
Current Account Balance (% of GDP)	−6.6	−5.2	−3.1	−2.5	−3.2	−3.6
GHC/USD	4.20	4.42	4.82	5.53	5.76	6.01
Year-to-date (app(+) depr(-)) %	−9.7	−4.9	−8.4	−12.9	−3.9	−4.1

Source: Bank of Ghana

Fluctuations in the cedi's value continued into 2019, entering into its 25th straight year of depreciation due to fiscal policy challenges. It is important to note that the cedi's fluctuation against major trading currencies contributes to the erosion of investor confidence in the economy. However, the cedi's performance turned around by early 2020 due to improved liquidity resulting from substantial inflows of foreign exchange related to non-residents' participation in the domestic bond market and the successes of Ghana's 'Year of Return' tourism initiative in 2019[9].

External Sector Developments[10] : 2020-2021

By December 2021, the trade balance recorded a surplus of US$1.1 billion compared with US$2.0 billion recorded in December 2020. According to the Bank of Ghana, the decline was due to higher imports from increased demand for petroleum products in 2021, with total imports rising 3.0 percent to US$13.6 billion, while total exports

increased by 1.8 percent to US$14.4 billion. Though private individual transfers remained stable, with net inflows amounting to US$3.3 billion, the year 2021 ended with a current account deficit of US$2.5 billion (or 3.6 percent of GDP), a slight increase compared to the same period in 2020. According to the Bank of Ghana, the current account deficit in December 2021 was driven by developments in the trade balance, interest income paid to foreigners, and profits and dividends repatriation. The stock of Gross International Reserves remains strong with roughly 4.4 months of import cover.

Economic Challenges from COVID-19 Pandemic

The COVID-19 pandemic has posed significant challenges across all spectrums of society for many countries, and Ghana is no exception. Lockdowns and travel restrictions led to unforetold disruptions to global trade as supply chains became grounded. As a result, many economies went into recession as demand and production nosedived, severely impacting government revenues. At the same time, expenses from pandemic control initiatives such as emergency health facilities coupled with social impact mitigation measures skyrocketed.

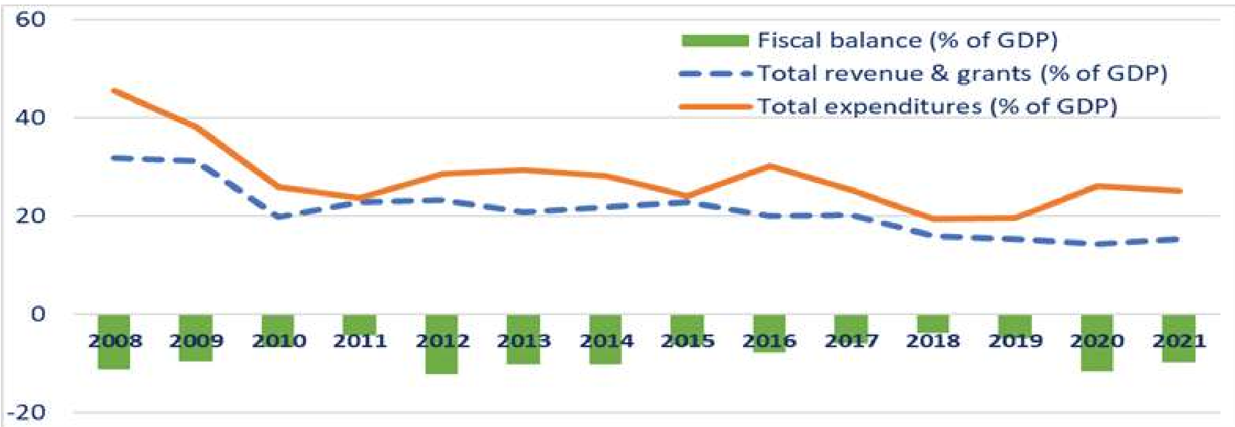
The impact of COVID-19 on the Ghanaian economy is easily ascertained from the reduced GDP growth of 0.4 percent in 2020. Furthermore, regarding government fiscal operations, the Finance Ministry attributed a revenue shortfall of GHc11.9 billion and extra expenditure of GHc14.1 billion relative to their respective targets in the 2020 budget to COVID-19.

[8]Bank of Ghana Monetary Policy Committee Press Release (January 2020). and Monetary Policy Report (January 2022).

3. Ghana's Debt is Rising Again
3.2 Trends in Public Debt

Rapidly rising levels of public debt threaten the overall positive growth performance over the past decade. The rising public debt is partly driven by the persistent budget deficits forcing the government to resort to increasing volumes of domestic and external borrowing. Government revenue has systematically failed to keep pace with expenditures, resulting in steady fiscal deficits (Figure 4).

Figure 4. Fiscal Performance: 2008 – 2021



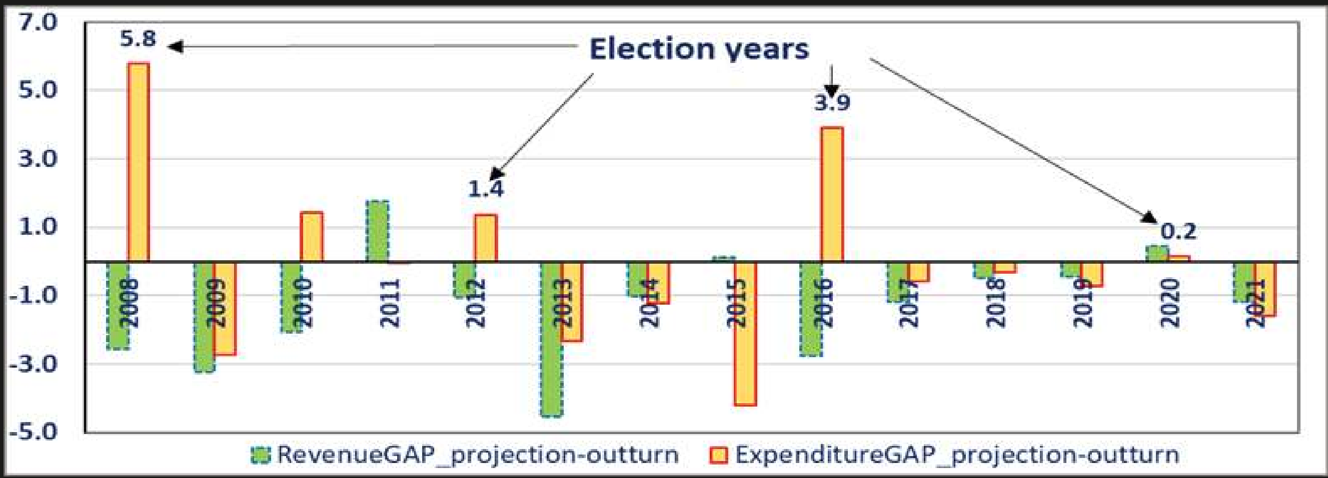
Source: Ministry of Finance

Following 2016, when expenditures exceeded projections by 3.9 percent of GDP, government expenditures have consistently remained below targets, which is usually the case for non-election years. Revenue outturns, however, have not kept pace with targets (Figure 5). An exception was 2020, when revenue as a percent of GDP exceeded the target by 0.5 percent.

The persistent fiscal deficits resulting from government revenue shortfalls have led to years of debt accumulation and rising debt servicing costs. The HIPC and the MDRI programs enabled the government of Ghana to reduce the country's debt stock from 2000 to 2006. The overall debt reduction from the HIPC initiative and MDRI were US$3.7 billion and US$3.5 billion, respectively (Ministry of Finance). This freed up resources to support economic programs to facilitate poverty reduction and stimulate growth through increased investment and employment creation.

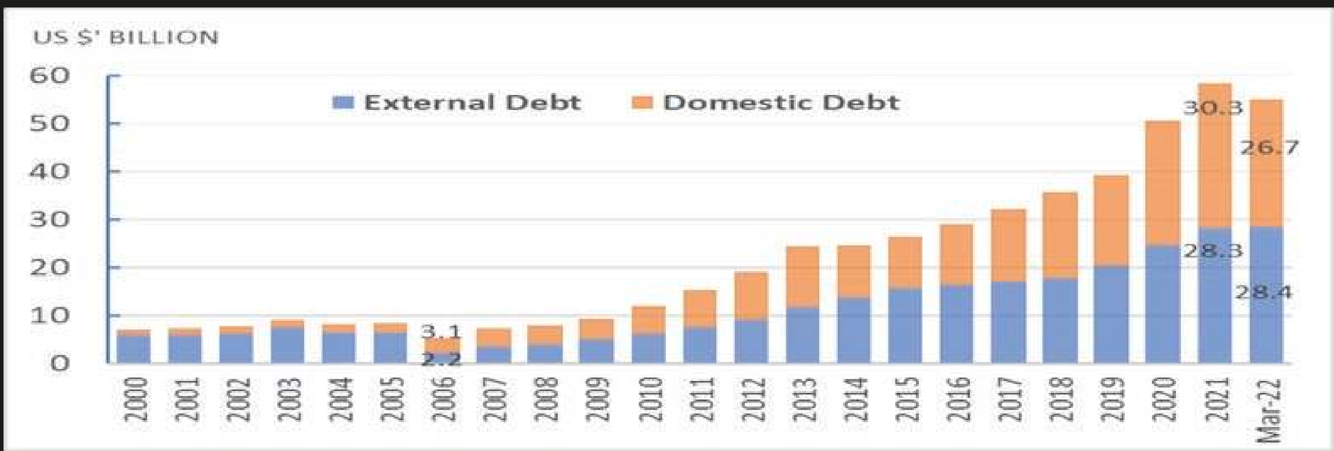
[9]Source: https://www.yearofreturn.com/about/. The 'Year of Return' is an initiative of the President of Ghana targeting the African – American and Diaspora community to mark 400 years of the first enslaved African arriving in Jamestown, Virgínia. It marks a major timeline in the sordid history of black slavery. One of the main goals of the Year of Return campaign is to position Ghana as a key travel destination for African Americans and the African Diaspora.
[10]Bank of Ghana Monetary Policy Report (January 2021).
[11]See Box 1 in the Appendix for a summary of the institutional framework for debt management in Ghana.

Figure 5. Fiscal Performance: Gap between Targets & Outturns 2008 - 2021



Source: Authors' Calculations Using Data from the Ministry of Finance

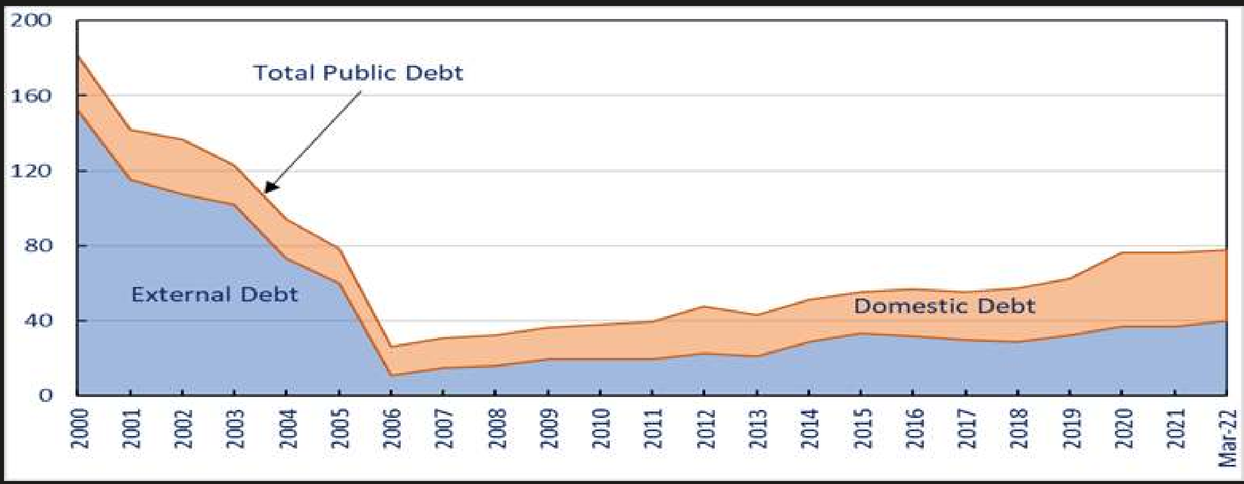
Figure 6A. Ghana's Public Debt: 2000 – March 2022



Source: Ministry of Finance and Bank of Ghana

However, the borrowing and fiscal space created by the debt relief package from the HIPC and MDRI programs have also been exploited vigorously by the government, leading to a rapid increase in the public debt (Figure 6A & 6B). As of December 2021, Ghana's total public debt has risen sharply to US$58.6 billion (or GHc351.8 billion), representing 76.6 percent of GDP. This may be compared with the US$50.8 billion (or GHc291.6 billion, representing 76.1 percent of GDP) recorded a year earlier (Ministry of Finance). By the end of the first quarter of 2022, Ghana's total public debt stock is US$55.1 billion (or GHc391.9 billion), representing 78 percent of GDP (Bank of Ghana).

Figure 6B. Ghana's Public Debt: 2000 – March 2022 (Percent of GDP)



Source: Ministry of Finance

The alarming increase in the public debt is a source of concern to investors, development partners, and the Ghanaian population. Currently, Ghana ranks among the top 10 countries in SSA with the highest debt to GDP ratios and the debt to GDP is projected to reach 85 percent by 2023

[12]The IMF African Regional Economic Outlook, April 2022, reports a government debt to GDP ratio of 78 percent of GDP.
[13]The ranking is based on actual 2021 data from the IMF

(Table 5). It is important to note that Ghana's debt to GDP in 2021 is relatively high compared to the average reported for middle-income countries (59.1 percent), the SSA region (56.9 percent), and the ECOWAS region (47.2 percent).

Table 5: Government Debt (Percent of GDP)

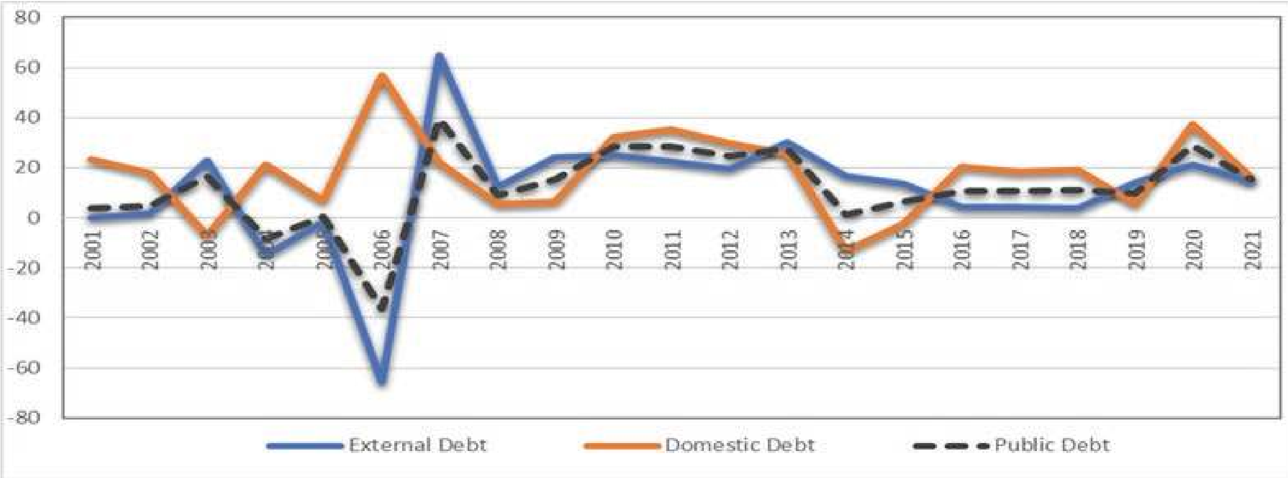
Rank (2021)	Country/Region	2008	2012	2016	2020	2021	2022*	2023*
1	Cabo Verde	63.0	91.1	128.4	158.8	154.1	159.2	152.7
2	Zambia	19.2	25.4	61.6	140.2	123.2	no data	no data
3	Mozambique	33.7	37.4	119.2	119.0	102.3	102.0	94.8
4	Mauritius	49.4	55.1	65.0	99.2	100.7	98.9	96.1
5	Angola	31.4	26.7	75.7	136.8	86.3	57.9	54.6
6	Congo, Republic of	69.6	30.2	91.0	110.1	85.8	64.0	62.4
7	Gambia, The	39.5	49.5	80.9	85.0	83.0	80.4	75.5
8	**Ghana**	**24.6**	**35.4**	**55.9**	**78.3**	**81.8**	**84.6**	**84.8**
9	Guinea-Bissau	148.8	46.6	57.7	79.4	80.7	79.7	77.7
10	Sierra Leone	42.4	36.4	60.7	76.3	76.2	75.0	73.1
	Middle-income countries (MIC)	20.1	27.5	41.5	59.5	59.1	57.1	57.3
	Nigeria	7.3	17.6	23.4	34.5	37.0	37.4	38.8
	South Africa	24.0	37.4	47.1	69.4	69.1	70.2	73.4
	MICs excl. Nigeria & South Africa	28.3	28.0	53.7	75.2	69.5	64.4	62.7
	Sub-Saharan Africa (SSA)	23.1	27.8	42.2	57.4	56.9	55.1	54.3
	SSA excl. Nigeria & South Africa	31.8	28.6	49.9	63.9	60.6	57.3	54.7
	ECOWAS	16.0	21.1	30.2	43.8	47.2	46.9	47.2

Source: IMF African Regional Economic Outlook, April 2022. *Projections

The public debt stock recorded an annual growth rate of approximately 15 percent in 2021, down from 29 percent a year earlier (Figure 7). The rate of debt accumulation for 2021 was 18 percent, down from 34 percent in 2020 (Ministry of Finance, 2022). The rate of debt accumulation in 2019 and 2018 was 26.1 percent and 21.4 percent, respectively.

The financial sector bailout and energy sector bailout have contributed significantly to the annual increases in debt accumulation since 2018. Excluding the financial sector bailout, the Ministry of Finance reports that the rate of debt accumulation, was 14.5 percent, 15.8 percent, and 22.4 percent in 2018, 2019, and 2020, respectively.

Figure 7. Public Debt Year-on-Year Growth (In Percent)

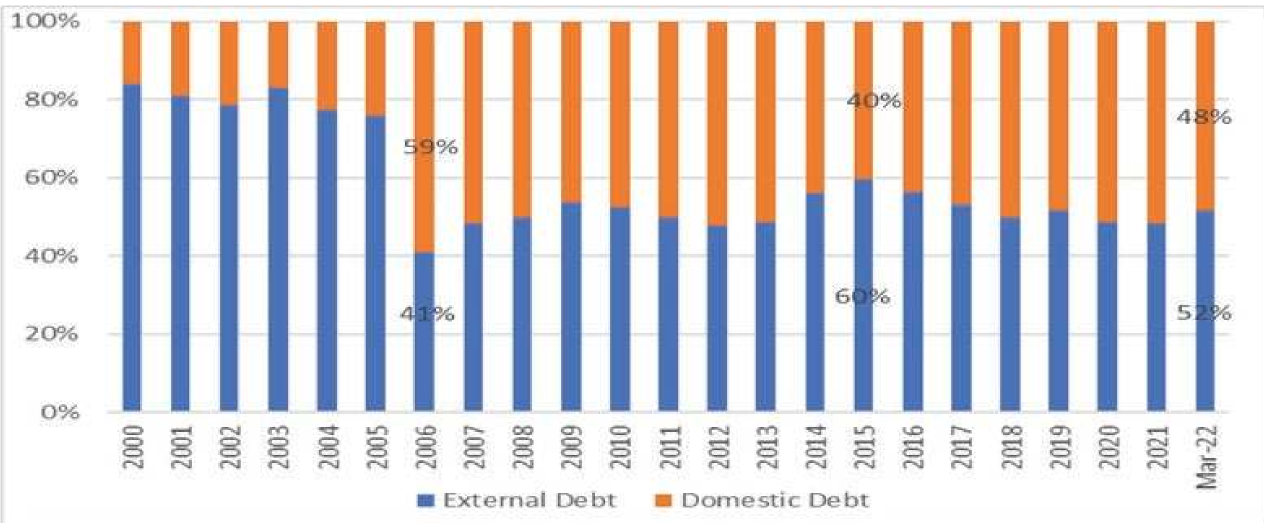


Source: Authors' Calculations Using Data from the Ministry of Finance and Bank of Ghana

3.3 External Debt: Trends, Composition, Drivers of Acceleration

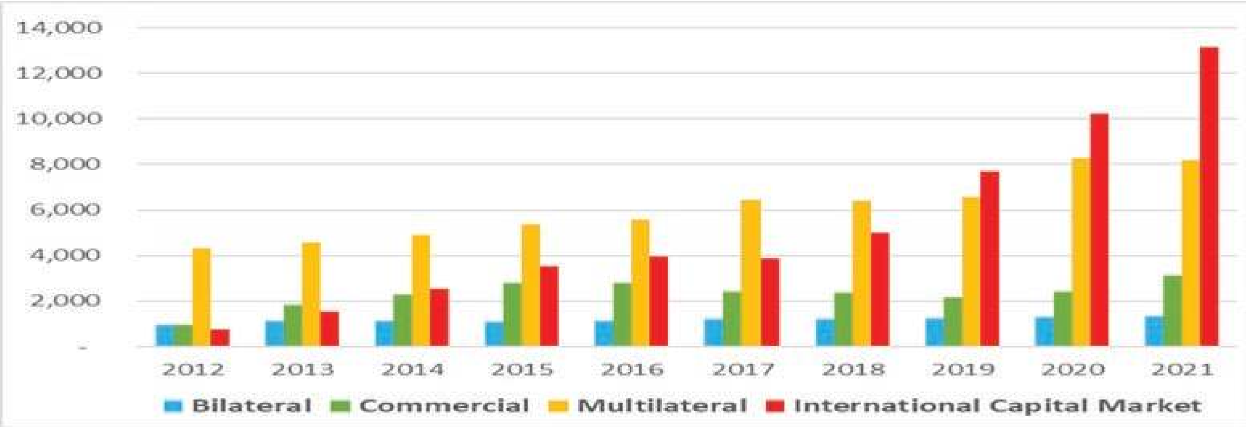
Following the debt relief package from the HIPC and MDRI programs, the share of external debt in the total public debt declined to 41 percent in 2006. Since 2008, the share of external debt in total public debt has fluctuated between 48 percent and 60 percent, reaching 60 percent in 2015 and dipping to 48 percent in 2021 (Figure 8). By December 2021, external debt was US$28.3 billion (or GHc170 billion), an increase from the US$24.7 billion (or GHc141.8 billion) recorded at the end of 2020. External debt inched up to US$28.4 billion (or GHc201.9 billion) in March 2022.

Figure 8. Share of External Debt in Total Public Debt (In Percent)



Source: Author's Calculations using data from the Ministry of Finance and Bank of Ghana

Figure 9. External debt by creditor category (US$, million)

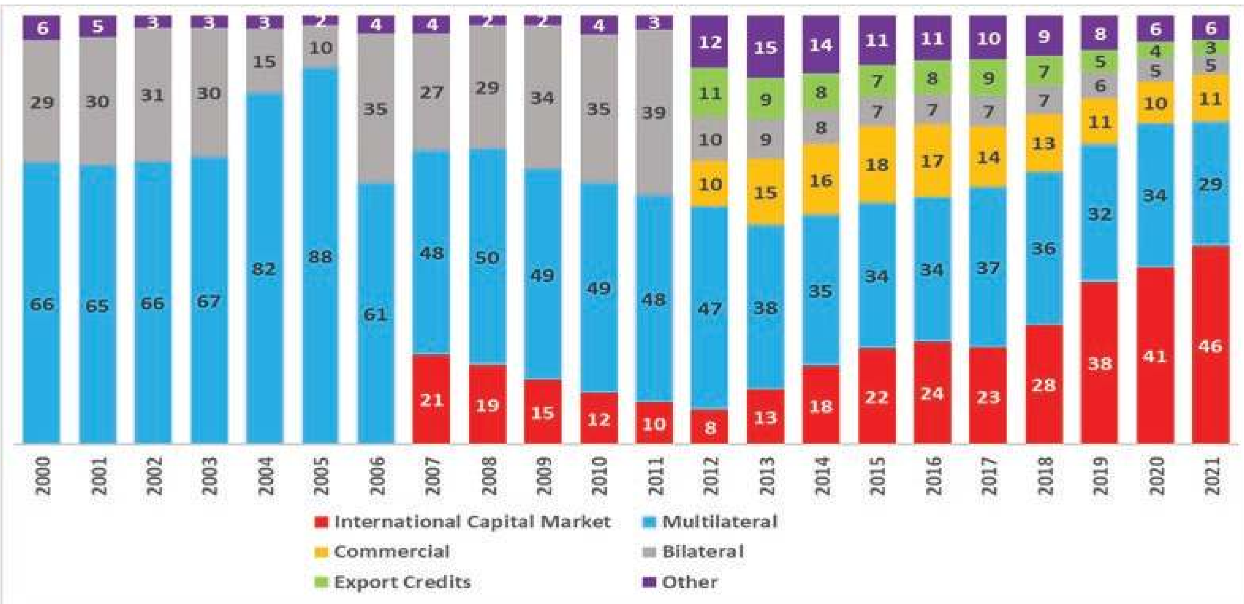


Source: Ministry of Finance and Bank of Ghana

The middle-income status attained by Ghana in 2010 has since reduced Ghana's access to concessional loans, and as a result, Ghana has had to diversify away from traditional creditors. Ghana's diversification of its financing sources away from the traditional creditors, including multilateral and bilateral creditors, toward commercial creditors, explains the increase in the share of external debt in the total public debt (Figures 9 and 10).

From 2007 to 2020, Ghana raised a total of US$12.5 billion (or US$13 billion in 2019 constant dollar terms) from international capital markets (Table A5 in the Appendix). As of December 2020, US$10.3 billion of this debt remains outstanding (Figure 9). By December 2021, the debt stock from the international capital market had reached US$13.1 billion (Figure 9). The combined outstanding loans to multilateral and bilateral creditors were approximately US$9.5 billion in 2021.

Figure 10. External Debt - Creditor Category (In Percent)



Source: Ministry of Finance and Bank of Ghana

In percentage terms, multilateral creditors' share of total external debt has declined from 61 percent in 2007 to 29 percent in 2021 (Figure 10). Similarly, bilateral creditors' share of total external debt steadily declined from 39 percent in 2011 to 5 percent in 2021 (Figure 10). Loans from the international capital market have gradually increased from 8 percent in 2012 to 46 percent in 2021. Noticeably, the share of commercial creditors, which peaked at 18 percent in 2015, has returned to its 2019 level of 10 percent by 2021 (Figure 10).

Roughly 70 percent of the total external debt is denominated in US dollars and about 17.3 percent in Euros (Table 6). The Chinese Yuan (CNY), British Pound Sterling (GBP), and Japanese Yen (JPY) accounted for 3.8 percent, 2.2 percent, and 2.0 percent of the Total External Debt denominations, respectively (Table 6).

Table 6. Currency Composition of External Debt Stock (In percent)

Currency	2019	2020 Prov.
USD	70.7	70
Euro	16.6	17.3
CNY	2.6	3.8
GBP	1.9	2.2
JPY	3	2
Other currencies	5.3	4.5

Source: Ministry of Finance

According to the current Government, funds generated from the international capital market, in addition to the loans from other new bilateral lenders including China, Kuwait, South Korea, and Brazil, have been used to finance infrastructural development and refinance maturing debt. In particular, the refinancing of short-term domestic debt, a form of debt-juggling.

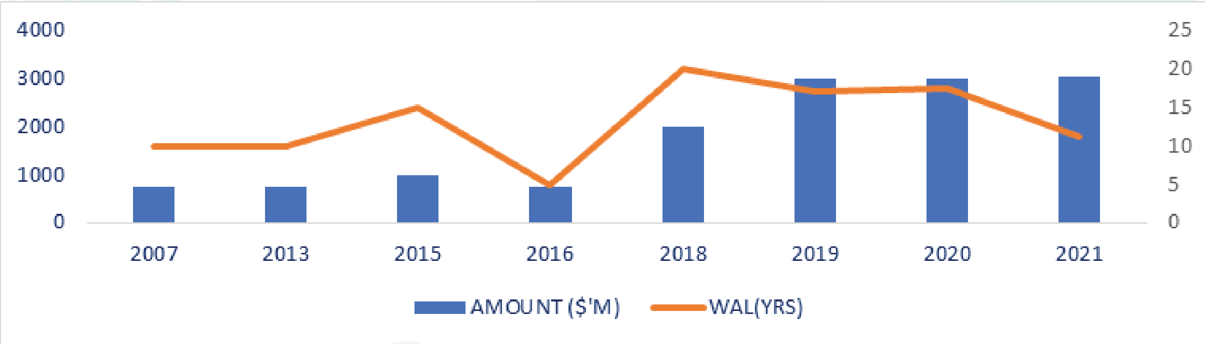
The Medium-Term Debt Strategy Framework of the Government is to replace the high cost maturing short-term domestic debt with longer maturity external debt (MoF). Recent engagement in the international capital market is in line with this strategy. Below, we provide a detailed review of Ghana's involvement in the international capital market and loans contracted from China.

Ghana's Eurobonds

3.3.1 Ghana's Eurobonds

Ghana went into the international commercial capital market for the first time in 2007, to obtain Eurobonds, and by the evidence from the ensuing years. Since then, Eurobonds have quickly become a routine part of the country's financing strategy

Figure 11: Ghana's Eurobonds by Size and Tenor



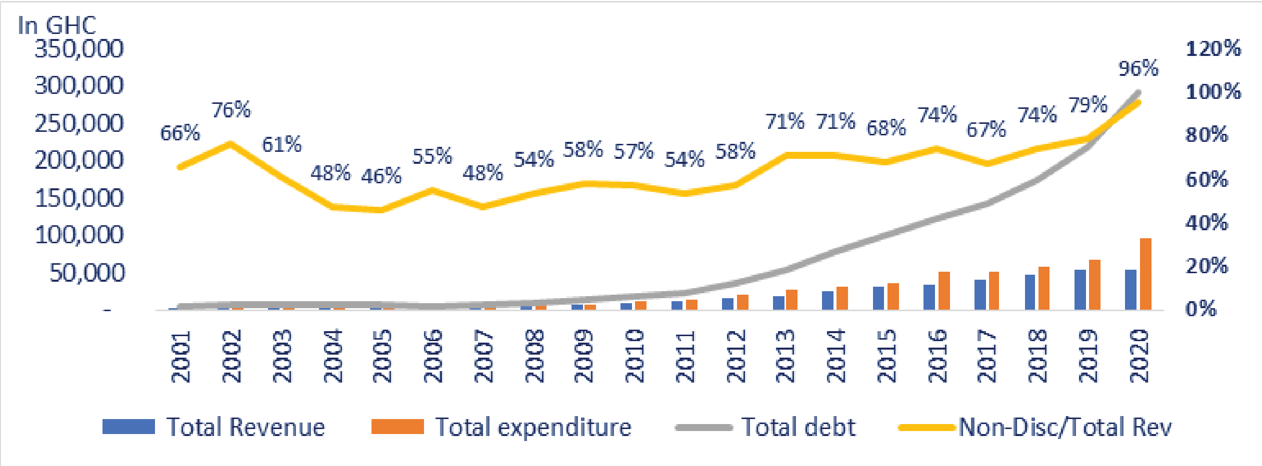
Source: Authors' computation based on media releases after Eurobond issuance.
From the initial 10-year bond of US$750 million, the country has gone back for more financing through Eurobonds on seven (7) other occasions, bringing total Eurobond funding to about $14.3 billion. Since 2018, Ghana has floated Eurobonds every year. Bond size per year floated has also moved from US$750 million to US$3.03 billion.

Drivers, opportunities, and risks of Eurobonds

A seemingly insurmountable challenge that successive managers of the Ghanaian economy have to confront is how to widen the tax base, a consistent theme in the efforts to mobilize revenue and balance the books. Reining in public expenditure remains an unattainable goal given a significant portion of government expenditure is non-discretionary.

Borrowings, including Eurobonds, are frequently used to address the resulting fiscal deficit. It is worth noting that in recent years some of the Eurobond proceeds have been used to pay previous debt obligations.

Figure 12: Fiscal deficit from non-discretionary expenditure



Source: Authors calculations based on data from Bank of Ghana

Non-discretionary expenditure, made up of public sector wage bill and interest payments, is rising at an alarming rate. The lowest percentage of total revenue spent on non-discretionary items was in 2005, a year after Ghana completed debt forgiveness under the Highly Indebted Poor Countries (HIPC).

Subsequently, the trend has generally been upwards. It is worth noting the increases in this ratio in 2008, 2012, 2016, and 2020. In 2020, 96 percent of total revenue was spent on compensation and interest payments, a 22 percent increase from 2019.

Eurobonds can be used as a debt solution and potentially improve the economics of an issuer's debt. Some of the positive aspects of Eurobonds are:

- They can be used to temporarily cover an annual fiscal deficit.
- Eurobonds could also be a tool for lowering interest costs in situations where cheaper bonds are floated to buy back more expensive debt obligations arising from earlier issuance. After the 2021 Eurobonds issued by Ghana, the Finance Minister indicated that up to US$1 billion were to be used to redeem more expensive earlier issuance and pay domestic debts with higher interest costs.

- Accessing the international credit market imposes self-discipline on countries as they know investors, rating agencies, and analysts are closely watching the country's economic management. As a result, any deterioration in economic fundamentals will lead to downgrades which negatively affects yields on existing bonds and drive-up costs of any future issuance.

- Sovereign bonds could be a cheaper and more flexible source of financing long-term infrastructure projects.

Conversely, Eurobonds can potentially have significant risks for issuers. If these risks are not properly managed, it could negate any advantages envisaged. Some of the risks are:

- Public debt can easily spiral out of control, especially where the requisite debt management capacities have not been developed prior to venturing into the international capital market. This is particularly critical in sub-Saharan African countries like Ghana, with historically weak fiscal institutions, low efficiency of public expenditure management, and governance challenges.

- Increased currency risk as the portion of foreign currency-denominated public debts increases. The situation could be worsened if repayment obligations fall due during times of strained economic conditions. This is especially so for primary commodity-dependent states like Ghana.

- Going into the international private capital market may result in reduced access to concessionary funding.

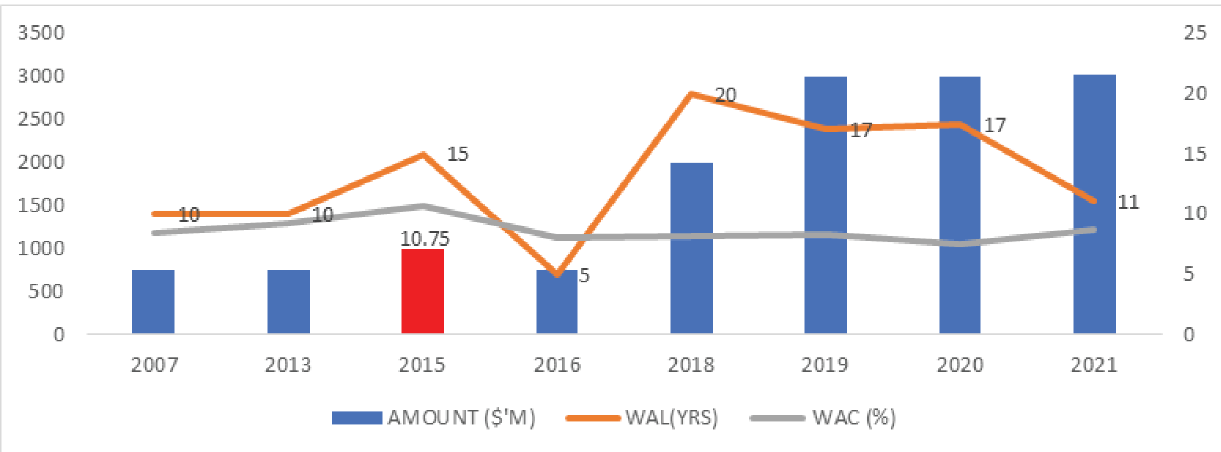
- Like other forms of capital flow, Eurobonds could pose challenges to the conduct of domestic monetary and exchange rate policies. The inflow of proceeds from Eurobonds could increase available foreign currency in the domestic economy, and this could strengthen the local currency leading to exports becoming expensive.

A defined public debt management strategy is necessary for the effective management of Eurobonds to seize the opportunities therein while mitigating the potential risks.

Dynamics of Ghana's Eurobonds

Every bond has unique characteristics that set it apart from others. From the issuer, size, tenor, issue price, coupon rate type, coupon frequency to principal liquidation approach is amongst the factors that give bonds their identity and determine the costs to the issuer (discounts/premium + coupons) as well as returns to the investors.
The sovereign rating of Ghana as an issuer by the three major international rating agencies, namely, Fitch, Moodys, and Standard & Poors, remains within the Bs, albeit with changes in outlook at different times. Ghana's Issuer Default Risk (IDR) in the Bs makes the country's bonds risky, and investors who take up Ghana Eurobonds are seen to be speculative. Hence, they need to be compensated for the higher risks with higher coupons.

Figure 13: Size, Tenor, and Costs of Eurobonds



Source: Authors' computation based on media releases after Eurobond issuance.

Generally, the size and tenor of Ghana's Eurobonds are both trending up. From the maiden US$750 million 10-year single tranche bond issued in 2007, we have progressed to multiple tranches, hitting four tranches in April 2021, totaling US$3.025 billion. Tenors have also gone upwards, with the US$750 million Ghana 2061 bond issued in 2020 going for forty-one years. As the size, frequency, and tenor increase, investors need to be compensated for the increased risks with higher coupons. Thus, Ghana's increasing appetite for Eurobonds comes with relatively higher costs.

Cost of Ghana's Eurobonds

Ghana has been generally successful at hitting its financing targets anytime it goes into the international capital market to raise funds through Eurobonds. While these successful forays into the markets are seen as a vote of confidence in the economy at the time of issuance, one of the biggest lures for investors is the lucrative coupons on offer. Most of Ghana's Eurobonds takers are investors in advanced economies who could get up to a ten-fold increase in returns when yields on Ghana's Eurobonds are compared with what is available in the investors' local markets. Coupons and discounts are just two of the direct costs associated with Eurobond issuance. In addition, there is a long list of direct and indirect issuance costs in the form of fees to the array of transaction advisors, book runners, and underwriters. Some of these costs to the state are presented below.

Coupon and discounts:

These are direct payments to investors for liquidity advanced and risks taken. Ghana's debut bond was issued at par with an 8.5 percent coupon. The highest coupon on any issuance was 10.75 percent in 2015. Coupons have generally hovered around the 8.5 – 9.0 percent handle with a few outliers. Then, of course, a much-touted zero-coupon bond was issued in March 2021, but this did not necessarily come cheap if you factor in the 22 percent discount applied. The 4th tranche of US$500 million 21-year bond issued earlier in 2021 had a discount of 3.41 percent, making it the most expensive in terms of payment to investors given its coupon was 8.88 percent, hence a total of 12.3 percent.

Generally, the 2021 issuance was more expensive in terms of coupon rates than in 2020. This signaled investor weariness and the need to reward investors for generating the necessary uptake. If this trend continues, and which appears to be the case considering the worsening debt to GDP situation, future costs of Eurobonds will be trending upwards.

Transaction and other fees:

Issuance of a Eurobond is a highly specialized technical area requiring the use of seasoned international capital market specialists of investment bankers, lawyers, and analysts, amongst others. The Finance Ministry, the local institution that spearheads Ghana's Eurobond activities, does not have adequate personnel with these capacities amongst its staff and thus relies heavily on external experts at a fee.

Besides fees paid to transaction experts, there are also listing fees paid to the exchanges on which Ghana's Eurobonds are listed. In addition, jurisdictions where these exchanges are registered also need to grant regulatory approvals to the listing and charges levied for such approvals.

In some instances, external guarantees are needed, which was the case in 2015. This reduces the risks of the issuance to a level acceptable by investors. However, such guarantees attract fees in favor of the guaranteeing institution.

Typically, all these transactions and other fees are in the region of 4 – 5 percent of the gross Eurobond amount. Over the past half-decade, Ghana has raised cumulatively US$14.3 billion from the international capital market in Eurobonds. This puts payments of fees in the region of US$571 – 714 million. The fees are usually taken out of the proceeds of the Eurobonds issued, meaning we are paying coupons of approximately 8.5 percent on these amounts going to payments of experts.

Maximizing benefits of Eurobonds

Ghana's debt to GDP is approaching 80 percent, and the country is primarily seen as a debt distress country. On this premise, it will become difficult to access the international capital market, and any additional Eurobonds issuance in the near term will come at a much higher cost. It is thus imperative to ensure that maximum value is driven from any borrowing by the government on a going-forward basis. To ensure the right benefits are obtained from the bonds raised in the international market:

- It is critical to increase the correlation between Eurobonds and economic growth. Issuing Eurobonds as a means of financing general fiscal gaps should be avoided. This will require the realignment of expenditure with Tax Revenue and improving domestic revenue mobilization.

- Eurobonds should only be issued to finance specific investment projects with rate of returns higher than the cost of financing. This will ensure that proceeds from the investments can pay off the principal and coupons of the Eurobonds used to finance the projects.

- Eurobonds should be used to finance the most productive projects in sectors with the greatest welfare impact and the ability to generate sufficient economic growth. The nationwide rail network is a project which could be financed using Eurobonds.

- Ghana should only go into the international capital market to raise funds during periods of low global interest rates. Proceeds of such can then be used to pay down more expensive debts. Raising more expensive debts just to meet existing debt obligations should be avoided.

3.3.2Chinese Loans

China is increasingly playing a dominant role in financing large infrastructure projects across Africa, and Ghana is no exception. As the world's largest official creditor, China has been the single most important bilateral lender to Africa in recent years, investing primarily in the energy, mining, and transportation sectors.

Available estimates from John Hopkins China Africa Research Initiative (CARI) put China's total loans to Ghana over the 2000-2019 period to be US$ 4.8 billion. About 47 percent of this amount has been invested in the energy sector, with 18 percent and 15 percent injected into the transportation and communication sectors, respectively. This amount excludes the US$ 2 billion loan agreement signed in late 2019, to be repaid with proceeds from the sale of refined bauxite (Benefo & Addaney, 2021).

Table 7: Chinese Loans to African Governments, 2000-2019, by Lender (millions of US$, unadjusted)

Country	Eximbank	CDB	Other	Total	Percentage Share of Total Loans
Angola	$8,362	$25,834	$8,423	$42,619	28%
Ethiopia	7,735	753	5,241	13,729	9%
Zambia	4,485	584	4,780	9,848	6%
Kenya	8,283	854	38	9,175	6%
Nigeria	6,185	157	390	6,732	4%
Cameroon	5,557	0	645	6,202	4%
Sudan	4,209	0	1,960	6,169	4%
ROC	4,581	0	809	5,390	4%
Egypt	1,967	3,100	214	5,282	3%
Ghana	**1,783**	**1,396**	**1,633**	**4,811**	**3%**
South Africa	0	3,140	717	3,857	3%
Cote d'Ivoire	3,552	0	170	3,722	2%
SSA Total	**86,153**	**37,149**	**30,136**	**153,438**	

Source: Johns Hopkins SAIS China-Africa Research Initiative©; ** CDB: China Development Bank

Table 8: Chinese Loans to Ghana Government, by Sector (millions of US$, unadjusted)

Sector	Total Amount	Percentage Share (%)
Power	2,274	47.3%
Transport	870	18.1%
Communication	723	15.0%
Defense	304	6.3%
Water	260	5.4%
Agriculture	186	3.9%
Education	119	2.5%
Government	38	0.8%
Business	32	0.7%
Unallocated	6	0.1%
Total	**4,811**	**100.0%**

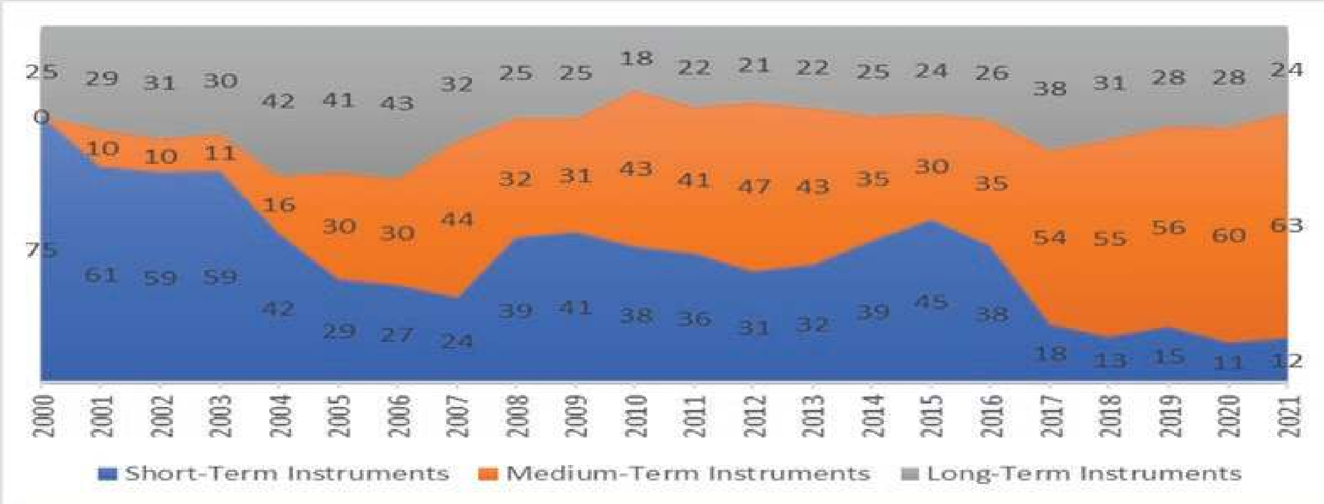
Source: Johns Hopkins SAIS China-Africa Research Initiative©

The main concern with Chinese loans involves commodity-linked debt. About one-third of Chinese loans are secured by export commodities in borrower countries and tied with Chinese goods and construction services (Brautigam & Hwang, 2016). Commodity-linked debt increases the risk of debt sustainability, given the price uncertainties that characterize commodity trading in global markets (Ndikumana et al., 2020).

3.4 Domestic Debt: Trends, Composition, Drivers of Acceleration

Domestic debt stood at US$30.3 billion in 2021, representing 41.4 percent of GDP, and 52 percent of total public debt.[14]

Figure 14: Maturity profile of domestic debt (% total)



Source: Ministry of Finance

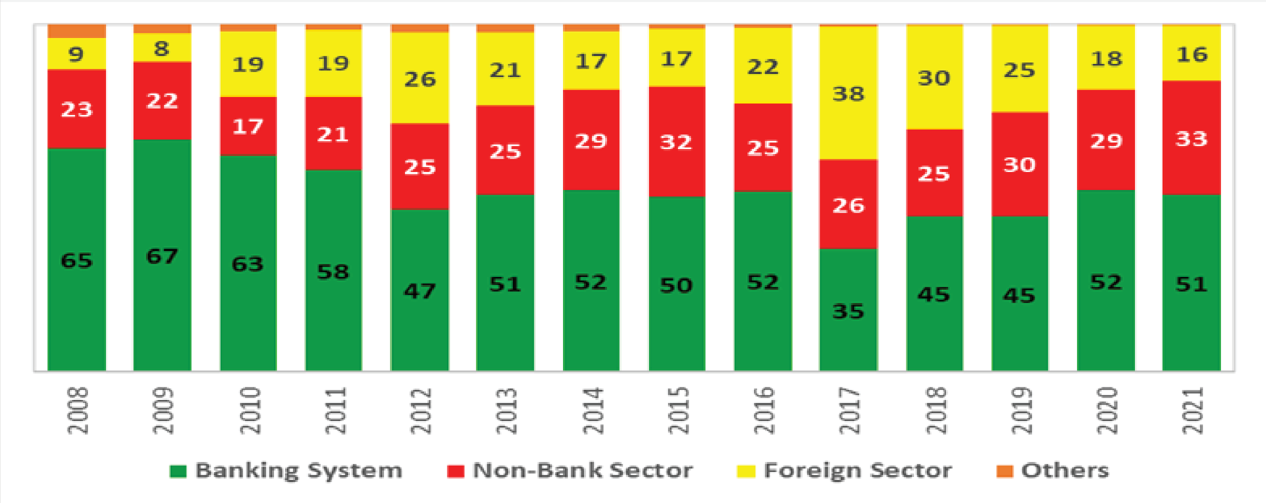
The high share of domestic debt in the total public debt stock was driven significantly by additional costs from the financial sector clean-up and the energy sector bonds.

In terms of maturity, there has been a gradual decline in the share of short-term debt in the total domestic debt stock, reaching 12 percent in 2021 from a high of 45 percent in 2015. On the other hand, medium-term debt has risen sharply, reaching 63 percent in 2021 from 30 percent in 2015 (Figure 14). Long-term debt has remained relatively stable averaging 26 percent from 2010 to 2021. The decline in short-term debt and the current rise in the share of medium-term debt should ease the pressure on debt service.

The Bank of Ghana and commercial banks represent the dominant holders of domestic debt. However, their combined share has declined significantly from 67 percent in 2009 to 51 percent as of 2021 (Figure 15). The share of the non-bank sector has risen 17 percent in 2010 to 33 percent in 2021 (Figure 15).

[14] Of the total debt stock, about US$4.35 billion (5.8 percent of GDP) is represented by the bailout costs (Financial Sector Resolution Bond issued to protect depositors' funds) and the energy sector IPP payments. The financial sector bailouts alone represent 3.4 percent of GDP.

Figure 15. Domestic debt by creditor (Percent of Total)[15]



Source: Ministry of Finance and Bank of Ghana

3.5 Contingent Liabilities

The Ministry of Finance (MoF) has taken giant steps to recover all on-lent facilities owed to the government. As a result, the total outstanding debt on-lent to various public entities at the end of December 2020 amounted to GH¢14,738.4 million (or US$2,569 million), out of which an amount of GH¢206.7 million (or US$36 million) were repayment arrears on existing on-lent loans provided to State Owned Enterprises (SOEs) and MoF in 2020. The Ministry of Finance also reports that recovery of GH¢43.3 million (or US$7.5 million) was made on the on-lent portfolio in 2020.

There is an important issue with defunct loans on the government's books. Some financial assistance to the private sector and some SOEs via on-lending arrangements have not fully been paid back despite efforts by the Ministry of Finance and the Controller and Accountant General's Department (CAGD) to recover them. Due to the strain on the government's limited resources from such expensive recovery efforts, compared with the amounts recovered, the Ministry of Finance, following the lead of the CAGD, in 2018 requested Cabinet and the Parliament for approval to write-off an amount of GH¢379.6 million (or US$79 million) loan receivable balances deemed non-recoverable .

The outstanding stock of government guarantees as of end-December 2020 amounted to about US$415.4 million (Table A6). The Ministry has strengthened its credit risk assessment framework to prevent future potential risks incurred by the government in extending guarantees to entities (MoF, 2018, 2020).

Currently, contingent liabilities have arisen from two public-private partnerships (PPPs) projects. These projects are the National Identification Project (NIP) and the Teshie Nungua Desalination Project. Amounts paid in 2020 for these contingent liabilities are US$4.23 million and US$19.9 million for the ongoing NIP and the Teshie Nungua Desalination Project, respectively.

Figure 15: Other holders include the public and the foreign sector

3.6 Energy sector bonds

As part of the government's effort to deal with the energy sector debts owed by utility and downstream petroleum service providers to banks and trade creditors, E.S.L.A. Plc was incorporated in September 2017 as an independent special purpose vehicle to, among other things, issue debt securities to refinance the Energy Sector Debt (Ministry of Finance, 2018). In conjunction with the Ministry of Finance, E.S.L.A. Plc successfully issued one of the biggest local currency corporate bonds in October 2017 (Ministry of Finance, 2018): a 7-year bond (value of GH¢2.41 billion or US$545 million) and a 10-year bond (value of GH¢2.4 billion or US$538 million) at coupon rates of 19.0 percent and 19.5 percent, respectively.

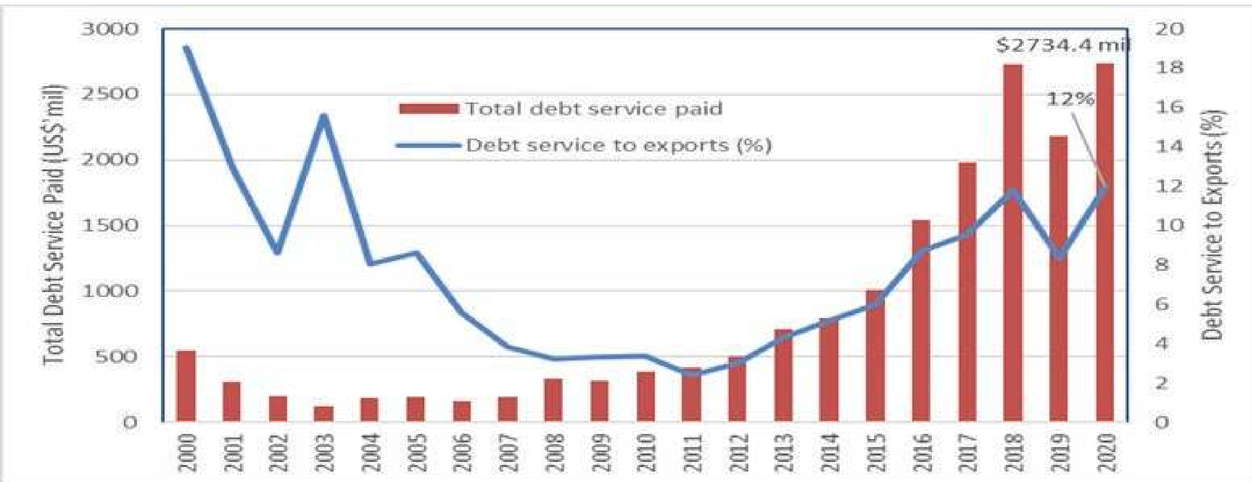
Tap-ins (re-opening) on the 10-year bond in 2018 increased the bond value by an additional US$199 million (or GH¢880.7 million) that year. In 2019 and 2020, total outstanding bonds issued by E.S.L.A. Plc were GH¢6.0 billion and GH¢1.63 billion, bringing the outstanding bonds to GH¢7.63 billion at the end of December 2020 (Ministry of Finance, 2020).

3.7 Debt Service

Available data shows the total debt service increased substantially to US$2.7 billion (12.0 percent of exports) in 2020 from US$2.2 billion (8.4 percent of exports) a year earlier, representing a 25% increase (Figure 16). Debt service is expected to increase with the recent debt accumulation.

[16] List of these loans is detailed in Appendices 5A and 5B of the 2018 Annual Public Debt Report of the Ministry.

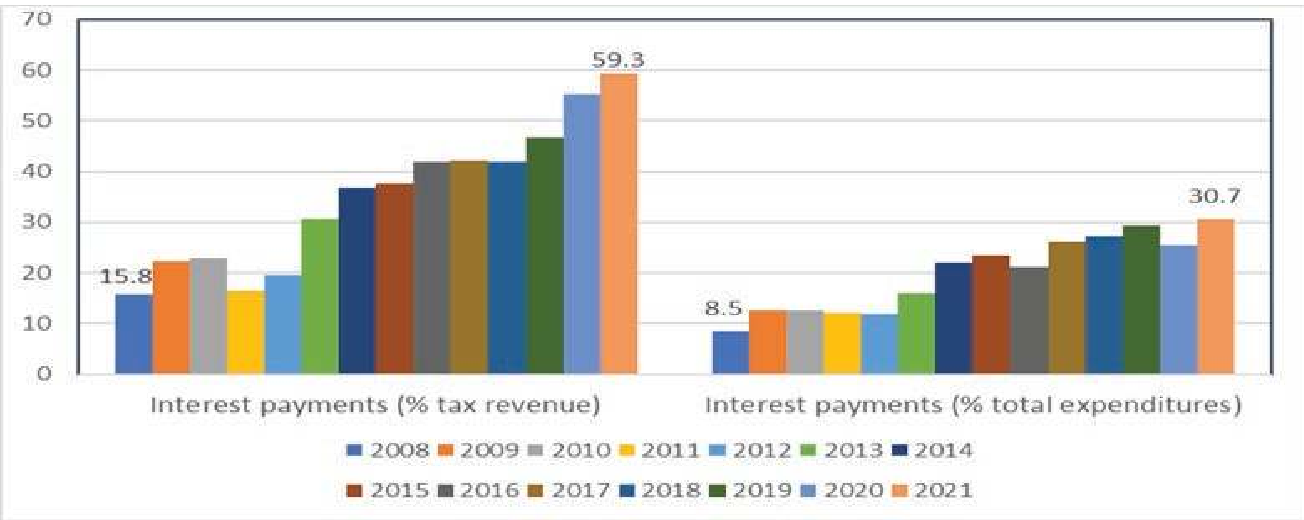
Figure 16. Debt Service



Source: Bank of Ghana

An important driver of the debt burden acceleration has been a rapid increase in interest payments over recent years. Interest payments have increased substantially as a share of government revenue as well as a ratio to GDP (Figure 17). The interest payment to revenue ratio more than tripled from 16.5 percent to 55 percent between 2011 to 2020. Between 2020 and June 2021, interest payment to revenue ratio increased to 64.5 percent.

Figure 17. Trends in Interest Payments to Revenue and Expenditure Ratios (In Percent)



Source: Ministry of Finance Fiscal Data (2008-2021)

The key driver in the increase in interest payments is the domestic debt component of total debt. Interest payments on domestic debt have consistently remained above 70 percent of total interest payments (79 percent in 2021) since 2008. Interest expenses on domestic debt amounted to GH¢26.4 billion in December 2021, compared to GH¢7.1 billion on external debt (Table 9). The total interest paid by the end of March 2022 is GH¢10.6 billion (Table 9). The 2022 budget projects interest payments to be GH¢37.4 billion, representing 27.2 percent of the 2022 budgeted total government expenditure, and the largest expenditure item for the year.

Figure 18. Interest Payments in domestic and external debt (percent share)

Source: Ministry of Finance Fiscal Data (2008-2021)

Over the past 18 months, interest rates on government debt in the UK, Eurozone, and United States have dramatically increased. This is in response to core inflation numbers exceeding the market's expectations. This development puts upward pressure on interest rates of any new public debt for Ghana and presents a dynamic where existing debt must be refinanced at a higher rate. This situation can accelerate the risks associated with being over-leveraged and create an acceleration in the cedi's depreciation and domestic inflation. Any policies/spending implemented must consider the global macroeconomic cycle to maximize any debt proceeds.

Year	Domestic	External	Total Interest payments
2008	GH¢481.9	GH¢197.3	GH¢679.2
2009	773.5	258.8	1,032.3
2010	1,124.3	315.0	1,439.4
2011	1,307.9	303.3	1,611.2
2012	1,879.7	556.4	2,436.2
2013	3,788.2	608.7	4,397.0
2014	6,111.0	969.9	7,080.9
2015	7,312.9	1,762.4	9,075.3
2016	8,466.4	2,304.1	10,770.4
2017	11,039.5	2,532.7	13,572.1
2018	12,494.1	3,327.8	15,821.8
2019	15,156.6	4,599.5	19,756.1
2020	18,352.1	6,247.2	24,599.3
2021	26,422.0	7,100.6	33,522.6
March 2022	8,772.0	1,836.4	10,608.4
2022 Proj	28,944.0	8,503.4	37,447.2

Source: Ministry of Finance

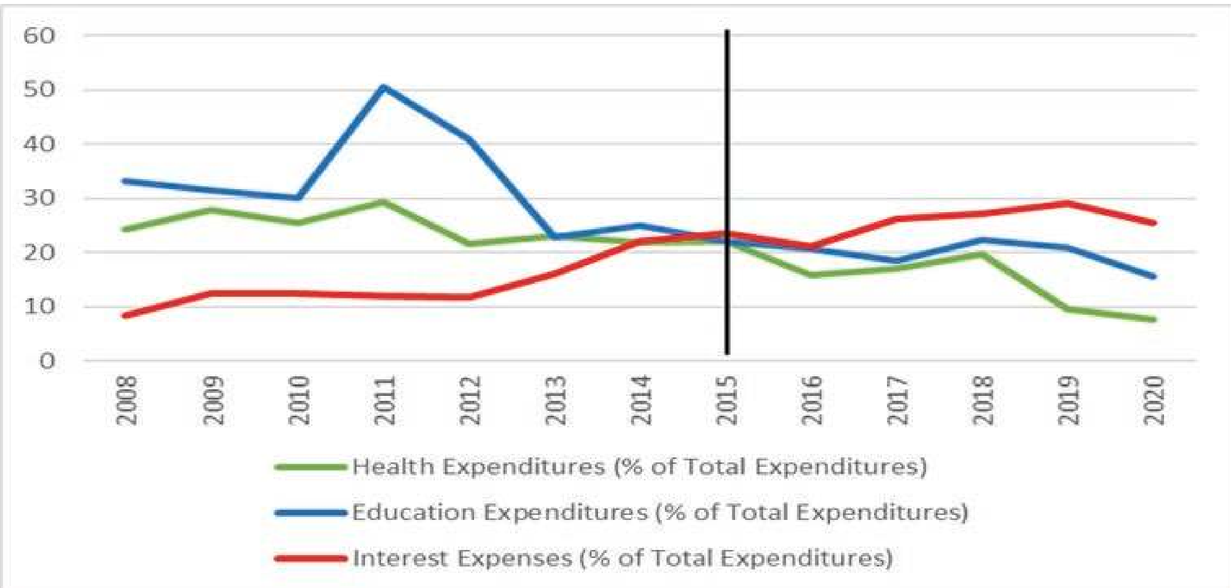
4. Implications of Excessive Debt Accumulation on the Economy
4.1 Overall Economy

The recent increase in public debt has long-term implications for the economy. Evidence from the empirical literature on the impact of debt on the economy suggests excessive debt accumulation can result in debt overhang. At a certain level, which the IMF defines as 60 percent debt to GDP for developing countries, the potential debt overhang discourages domestic and foreign investments due to the higher marginal tax rates those investments will likely face. The long-term implication being lower living standards (Ndikumana et al., 2020). Moreover, as total debt service costs for total government expenditure rise, the resulting budget deficits increase long-term interest rates, crowding out investment in the private sector and further hurting economic growth (Kumar & Baldacci, 2010).

4.2 Tax and Government Expenditures

The magnitude of the increase in debt in recent years raises concerns about its implications for public expenditures and domestic revenue mobilization. When the ratio of debt to GDP for a developing country rises beyond 60 percent, the following are likely to occur as the government budgets to meet estimated debt service requirements: (i) cuts to government expenditures; (ii) increase domestic revenue mobilization efforts. The former poses a challenge to public spending that affects poverty-reducing social sectors and critical infrastructure investments with implications for current and future economic welfare.

Figure 19: Social Expenditures and Interest Expenses (Percent of Government Expenditures)



Source: Ministry of Finance; Bank of Ghana, and WDI, World

Evidence from literature shows that most SSA countries respond to rising debt levels by cutting social and capital expenditures (AfDB, 2018; Mahdavi, 2004; Mello, 2008). This is clearly illustrated in Figure 19. Since 2015, the interest expense on public debt has exceeded health and education expenditures. Currently, health expenditures are less than 10 percent of total government expenditures, falling from about 29.5 percent in 2011 to 7.6 percent in 2020. Education expenditures have also declined, falling from 20 percent in 2015 to approximately 15 percent in 2020.

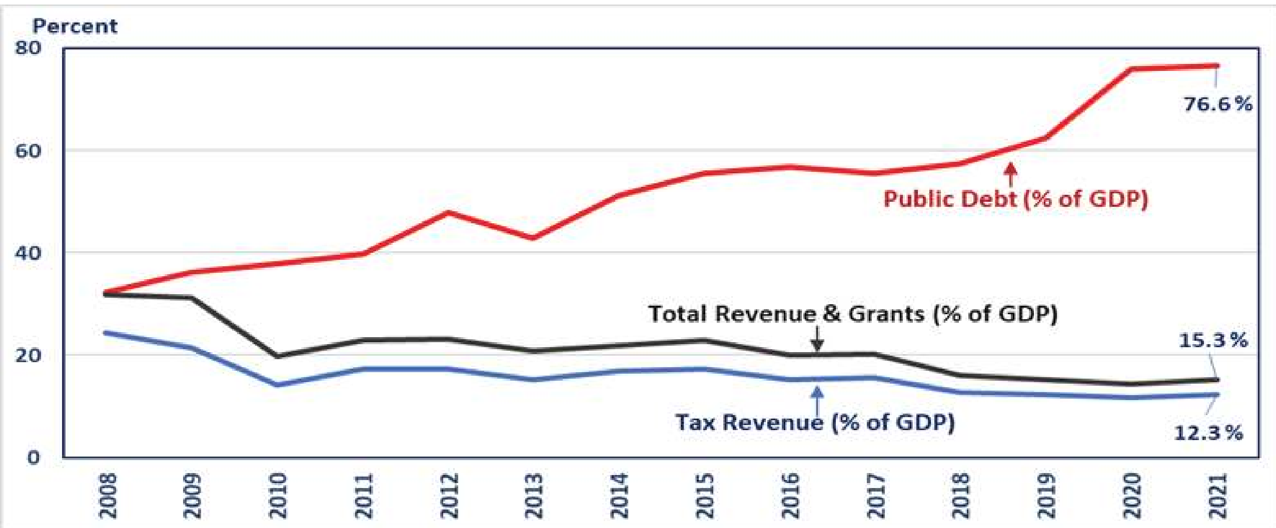
In 2022, total interest expense is projected to be 27.2 percent of the 2022 budgeted total government expenditure, and the largest expenditure item for the year. Therefore, it is of critical importance for fiscal consolidation efforts by the government to target recurrent expenditures, such as interest expense due to debt overhang, and not social or capital expenditures, as doing so will compromise accelerated growth, poverty reduction, and the country's progress towards attaining sustainable development goals.

Addressing Domestic Revenue Shortfalls: Is E-Levy the Solution?

In recent years, Ghana's revenue mobilization efforts have lagged the pace of debt growth (Figure 20). At the end of December 2021, the Total Revenue and Grants to GDP stood at 15.3 percent (domestic revenue was 15.2 percent of GDP); Tax Revenue to GDP was 12.3 percent. In comparison, total expenditures to GDP was 25.1 percent. It's worth noting that at the end of 2021, compensation of employees (including wages and salaries, pensions & gratuities, and other wage-related expenditure) and total interest payments accounted for 47.5 percent and 50.4 percent of domestic revenue, respectively.

The generally low tax base is a source of concern, and innovative strategies which would enhance revenue mobilization efforts while not compromising the welfare of the vulnerable in society are urgently needed.

Figure 20. Public Debt and Revenue Performance (Percent of GDP)



Source: Ministry of Finance

The government has proposed to introduce an "Electronic Transaction Levy" or "E-Levy" in the 2022 budget, to take effect February 1, 2022. The levy is imposed on mobile money payments, bank transfers, merchant payments, and inward remittances and will attract a rate of 1.75 percent, to be borne by the sender, except inward remittances, which the recipient will bear (Ministry of Finance, 2022 Budget). Although the levy is expected to expand the tax net, at least in the short term, the burden is likely to fall more heavily on the side of the market that is less responsive to the changes in transaction costs from the imposed levy. In other words, the relative responsiveness of supply and demand for electronic transactions will determine the welfare impact of this levy. Demand may be less responsive and, as a result, would impact consumers negatively.

4.3 Public Debt Jeopardizing Single Currency (Eco) Prospects

While no member state of the Economic Community of West African States (ECOWAS) consistently meets the convergence criteria for the introduction of the Eco, Ghana's rising public debt is further jeopardizing its ability to consistently meet the convergence criteria for joining the Eco.

The proposed Eco now scheduled for introduction in 2027 is hinged on the attainment of a convergence criteria made up of four primary and two secondary criteria. The primary criteria include single digit year end inflation, fiscal deficit including grants not exceeding 3% of GDP, central bank financing of fiscal deficit not exceeding 10% of previous year's tax revenues and gross foreign reserves of at least 3 months import cover. The secondary criteria for convergence are exchange rate depreciation not exceeding 10% and debt to GDP of not more than 70%.

Public debt is regarded as the most important criterion as a sustained attainment of same will be a launch pad for the achievement of the remaining criteria (Olowofeso et al, 2021). To keep public debt under control requires fiscal discipline; an essential ingredient in keeping a stable exchange rate and subduing inflationary pressures particularly imported inflation. Additionally, there will be no need to utilize external reserves to support stability of the exchange rate.

Ghana's public debt has trended above the convergence threshold of 70% of GDP from 2020, putting the country at a high risks of debt distress. The effects of the public debt level on meeting the convergence criteria are exacerbated by the growing component of external debts. This magnifies susceptibility to external shocks. The Ghana Cedi is enduring one of its worst performances in recent times, depreciating around 22 percent within the first five months of 2022. This compelled Bank of Ghana to intervene at the peril of international reserves. Inflation for May 2022 is at an almost 30 year high of 27.6 percent (Bank of Ghana).

High public debt, weakening currency and rising inflation are driving up cost of borrowing as investors look for higher returns for the elated risks associated with Government of Ghana instruments. The attendant high interest costs are widening current account deficit well beyond the 3% envisaged for convergence.

The international capital market has also become inaccessible to Ghana implying stronger push for Central Bank financing of government's budget gap. The lack of access to the international capital market leaves government with little room to maneuver than to crowd out the private sector in the domestic market. This is filtering through in the increasing allocation of bank assets to investments in government securities. Ghana also becomes vulnerable to predatory bilateral lenders. Both are counter to GDP growth.

The unsustainable public debt levels do not only pose dire consequences to sustainability of the country's economy in the short term but also hampering its medium to long term prospects including advantages associated with being a member of a regional monetary union like the Eco.

5. Debt Sustainability

According to the IMF, a country's debt is deemed sustainable if the government can meet all current and future payment obligations. Historically, there has been a negative correlation between GDP growth and distressed debt. This has led to the focus on a country's GDP, and its components being analyzed to determine the sustainability of new and existing debt.

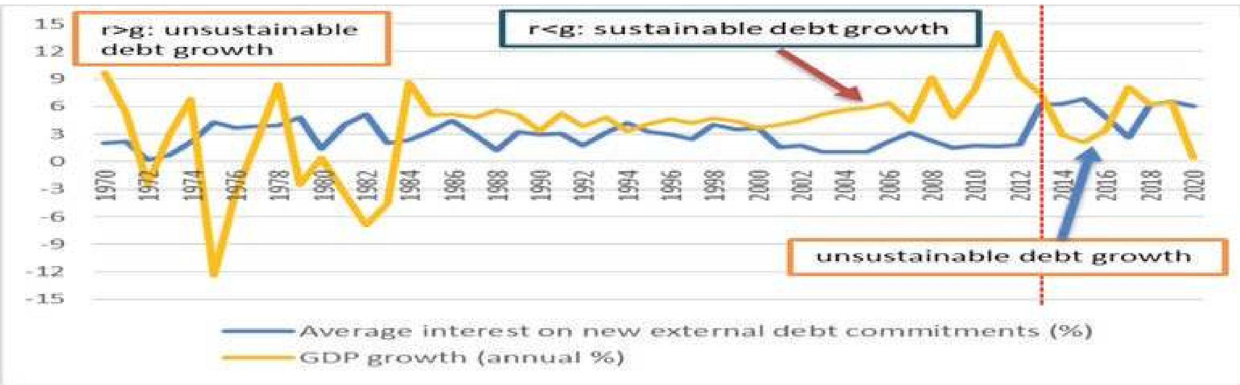
In general, the debt to GDP ratio considered optimal on a long-term basis is estimated at 60 percent for developed countries and 40 percent for developing and emerging economies (Institute of Economic Affairs, 2015). Ghana's debt to GDP ratio of 78 percent as of March 2022 indicates a breach of this threshold. It is considered that interest payments above 26 percent of government revenue for emerging economies will pose a significant challenge for the government and hurt the fiscal balance, raising the need for additional borrowing (Debrun and Kinda, 2016). Since 2012, Ghana has exceeded this threshold, and interest payments to revenue ratio currently exceed 37 percent.

The high-interest short-term domestic debt accounts for the growth in interest payments. A sustainable fiscal policy would require that the primary surpluses respond positively to the debt to GDP ratio even under very weak conditions (Bohn, 1998). The positive response of primary surpluses to the debt to GDP ratio means that the debt to GDP ratio should be mean-reverting (Bohn, 1998). Debt sustainability would require the government to run primary surpluses. Ghana's debt to GDP ratio of 78 percent is beyond the IMF's 40 percent threshold for developing countries and heightens the focus on the ability of new and existing debt to generate higher economic growth, revenue, and exports.

Growth and Interest Rates

Since some of the debt accumulation is used to finance the expansion of productive capacity, it is expected that the resulting growth acceleration would enable the debtor country to sustain its debt payment obligations (Ndikumana et al., 2020).

Figure 21: Ghana's GDP growth and interest rate on external debt



Source: World Bank, World Development Indicators; International Debt Statistics.

A review of GDP growth rate and the interest rate on external debt is quite revealing (Figure 21). Since 2000, Ghana's GDP growth rate exceeded the average interest rate on external debt, suggesting sustainable debt growth. However, the recent uptick in average interest rate relative to GDP growth is a worrying sign that our debt has reached an unsustainable territory, unless the momentum lost in GDP growth, due to the COVID-19 pandemic, is reversed.

IMF/World Bank Debt Sustainability Assessment

With respect to external debt, the current Debt Sustainability Assessment (DSA) report by the World Bank/IMF ranks Ghana as a medium performer with a debt carrying capacity benchmark of 55 percent of GDP. For the new Debt Sustainability Framework (DSF), external debt indicators have been streamlined to only four indicators, namely (i) Present Value (PV) of debt-to GDP ratio, (ii) Present Value (PV) of debt-to export ratio, (iii) Debt service-to-exports ratio and (iv) Debt service-to-revenue ratio (IMF, 2019).

A country's debt-carrying capacity is determined by 5 years of historical data and 5 years of country-specific and global projections. Specifically, debt carrying capacity is based on Composite Indicator (CI), which includes Country Policy Institutional Assessment (CPIA) plus other macroeconomic variables (fundamentals). The Composite Indicator (CI) is a weighted average of the country's CPIA score computed by the World Bank, the country's growth, reserves, remittances, and world growth. On the basis of these thresholds and benchmarks, the overall assessment of debt distress is based on the following four categories:

- **Low risk:** when there are no breaches of thresholds;
- **Moderate risk:** when thresholds are breached in risk scenarios;
- **High risk:** when thresholds are breached in the baseline scenario;
- **In Debt distress:** when a distress event, like arrears or a restructuring, has occurred or is considered imminent.

Table 9: Debt burden thresholds & benchmarks under Debt Sustainability Framework

Debt Carrying Capacity	PV of external debt in percent of		External debt service in percent of		PV of total public debt in percent of
	GDP	Exports	Exports	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	55	240	21	23	70

Source: IMF/World Bank DSF Framework

Table 10 provides a distribution of countries in the SSA sub-region that are either at a high risk of debt distress or in debt distress by the end of 2020. Ghana has moved from moderate risk in 2010 to high risk by 2020. The debt service-to-exports and debt-service-to-revenue ratios are expected to remain above the thresholds of 15 percent and 18 percent, respectively, over 2018–2038 (IMF, 2019). The debt to GDP ratio in March was 78 percent. Contingent liabilities, rising interest costs, and vulnerabilities in commodity prices continue to threaten Ghana's public debt sustainability.

Based on these threats, the World Bank/IMF assesses that Ghana's overall public debt risk is high. Fiscal consolidation and sustained growth will be critical for improving debt sustainability. In addition, domestic revenue mobilization efforts, combined with effective debt management involving the smoothing and lengthening of the debt maturity profile, are vital for keeping debt service within sustainable thresholds.

[17]Based on October 2018 WEO macroeconomic framework and the World Bank's CPIA index, Ghana's composite indicator score was 2.83 (above the lower cut-off value of 2.69 but below the strong capacity cut-off value of 3.05) confirming medium debt carrying capacity used in the April 2018 DSA under the old methodology. The new
thresholds for external debt risk rating for a medium performer are (i) Public debt ratio-to-GDP: 55 percent; (ii) PV of PPG external debt-to-GDP: 40 percent; (iii) PV of PPG external debt-to-exports: 180 percent; (iv) Debt service of PPG external debt-to-exports: 15 percent: and (v) Debt service of PPG external debt-to-revenue: 18 percent (IMF, 2018, 2019).

Table 10: Risk of External Debt Distress

Country	2010	2019	2020
Ghana	Moderate	High risk	High risk
The Gambia	High risk	In distress	High risk
South Sudan	-	In distress	High risk
Congo, Republic of	High risk	In distress	In distress
Mozambique	Low risk	In distress	In distress
São Tomé and Príncipe	High risk	In distress	In distress
Somalia	In distress	In distress	In distress
Sudan	In distress	In distress	In distress
Zimbabwe	In distress	In distress	In distress

Source: IMF/WB DSA Reports (2010, 2019, 2020)

Sound Institutions and Policies Important for Public Debt Management
Ghana's dire debt situation, which the ongoing COVID-19 pandemic has further complicated, requires immediate action. The importance of sound institutions and policies to help contain the economic fallouts from the COVID-19 crisis and position the country for robust recovery cannot be overemphasized.

Strong macroeconomic fundamentals, in particular, a strong rebound in economic growth, improved fiscal accounts with the government running positive budget balances, sound monetary policies with low and stable inflation and interest rates, stable exchange rates, and strong foreign reserves build-up, combined with effective debt management and policy coordination between debt management, fiscal and monetary policies are required to avert a debt crisis.

Box 1: Public Debt Management in Ghana

The section utilizes information from published documents to illustrate the oversight and management of the public debt in Ghana. Further, it provides a brief discussion about the importance of macroeconomic policy coordination for debt sustainability.

Policy Instrument

The government's policy instrument that governs public debt management is the Public Financial Management (PFM) Law (ACT 921, 2016). The mission of ACT 921 is to "regulate the financial management of the public sector within a macroeconomic and fiscal framework; to define responsibilities of persons entrusted with the management and control of public funds, assets, liabilities, and resources, to ensure that public funds are sustainable and consistent with the level of public debt; to provide for accounting and audit of public funds and to provide for related matters." In addition, to strengthen Ghana's fiscal transparency and accountability, the government also passed the PFM Regulation L.I. 2378 on March 12, 2019. The stipulated regulations are to ensure more robust cash management, spending execution, and budget monitoring.

Government Entities Involved

The management of public debt involves three main government entities: The Ministry of Finance, the Controller & Accountant General, and the Bank of Ghana, with oversight from the Parliament of Ghana. The Ministry of Finance is the primary institution tasked with contracting government loans, coordinating and implementing government debt management policies. The Controller & Accountant General is responsible for disbursing the resources and the provision of advice on accounting matters to the government. In addition, the Ministry of Finance coordinates with the Bank of Ghana to report to the public and ensure prudent, efficient, and effective public debt management.

Coordination among the three main government entities is the responsibility of the Ministry of Finance. The Treasury and Debt Management Division (TDMD) of the Ministry of Finance coordinates with other divisions in the Ministry to analyze the country's debt sustainability and prepare the medium-term debt strategy. The TDMD also coordinates with the Resource Mobilization and External Relations Division (RMERD) to ensure effective implementation of the debt strategy regarding multilateral and bilateral loans, for which RMERD performs much of the front office functions. The TDMD also coordinates with the Budget Division and the Controller and Accountant General's Department in assessing the government's financing needs and cash management and the payment of government debt obligations. The TDMD coordinates with the Bank of Ghana in determining the domestic capital market and the auction and settlement of government debt securities. The Bank of Ghana handles external debt service payments on behalf of the Government of Ghana. Ensuring financial accountability is the responsibility of the legislature and public audit institutions.

Public Awareness: Government Borrowing and Debt Uses

The regular publication of the Budget documents (Statement of Economic and Financial Policies), the Medium-Term Debt Strategy document, Annual Public Debt Report, the Quarterly, and Annual Public Debt Statistics Bulletins, and the Bank of Ghana bi-monthly Monetary Press Release reports and Summary of Economic and Financial Data, keeps the public informed about government borrowing and debt-funded projects. The public has the opportunity to review and comment on government borrowing

Source: Ndikumana et al, 2020.

6. Conclusion and Policy Recommendations

This report examined Ghana's public debt from 2000 to March 2022. It also covered the trends, patterns, and drivers of the recent debt accumulation to shed light on potential strategies to mitigate the adverse impact on the economy while ensuring sustainable financing of development. There are rising concerns about a potential sovereign debt crisis based on recent debt accumulation reaching levels not seen post-HIPC. Based on the DSA of the International Monetary Fund (IMF) and World Bank, Ghana's current debt level has led to it being classified as a country with a high risk of debt distress. Unless measures are implemented soon to curtail the pace of debt accumulation and focus on the efficient management of the economy in its entirety, it may be challenging to fully restore the country's access to international debt markets.

Both internal and external factors can explain the acceleration of debt accumulation in recent years. Generally, the acceleration of debt accumulation has coincided with the following:

- A persistent fiscal deficit, including the deterioration of the current account, currency depreciation, and terms of trade shocks.
- A saving-investment gap.
- A generally low global interest rate environment, leading to the search for higher yields by foreign investors.
- Additional cost from the financial sector bailouts/clean-up.
- The economic fallout from the COVID-19 pandemic.

The overall cost of debt service has been increasing due to the increase in non-concessional borrowing and the high cost of private short-term loans, including domestic and Eurobonds. The implications of rising public debt, above the 60 percent to GDP level, should be a source of concern to managers of the country's public debt because high debt servicing costs drain limited resources and reduce allocations to critical social services, including education, health, and support to the most vulnerable in society. Equally concerning is how revenue mobilization efforts have significantly lagged the pace of debt accumulation in recent years. Since 2015, the country's debt to GDP ratio has significantly increased while the revenue to GDP ratio has steadily declined.

The country does not necessarily need to halt borrowing. However, the current debt situation requires all stakeholders, including the government, our lenders, development partners, and civil societies, to rally together to devise the necessary measures needed for fiscal consolidation before the situation deteriorates into a full-blown sovereign debt crisis.

To resolve the country's fiscal challenges associated with the rapid increase in debt accumulation, confidence in Ghana must be restored in the domestic and international investment and debt markets. The following is recommended to be incorporated in any solution:

Short-term Strategies:

- Immediate fiscal consolidation efforts aimed at enhancing revenue mobilization and reducing expenditures. In its fiscal consolidation efforts, the government should consider reducing the size of the State or at the very least capping expenditures and leverage newly implemented institutional measures, such as the national identification systems, to boost revenue mobilization.
- Engage creditors to initiate a process for debt re-profiling and restructuring. Initiating this process may require the involvement of

major development partners, including the IMF, who often requires any party seeking debt relief to demonstrate a thorough understanding of their existing debt and terms and be willing to have a broader debt restructuring conversation with all current major creditors. The extent of engagement with the IMF, in particular, could lead to further expenditure rationalisation, which could potentially reduce aggregate demand and temporarily slow economic growth. However, with limited and costly alternatives, accepting and embarking on an IMF adjustment program may be the main feasible route to avert a sovereign debt crisis.

- The adopted Rationalized Convergence Criteria in the ECOWAS region, in preparation for the launch of the ECOWAS Single Currency, also offers an alternative gradual path toward reducing the high budget deficits and slowing down the growth of the debt stock. Under these criteria, members must reduce their budget deficit and public debt to less than or equal to 3 percent and 70 percent of national GDP, respectively. The government's binding and strong commitment toward deeper economic integration in the short- to medium-term would be critical for bringing the debt below 70 percent of GDP.

- Immediately review all tax waivers and tax exemptions to refocus only on investments whose strategic economic value exceeds tax waivers granted. Tax from employees, service providers, and clients should be demonstrable higher than tax waivers or exemptions granted to each entity.

Medium- to Long-term Strategies:

- Increase cooperation with development partners to enhance responsibility, transparency, and mutual accountability in lending practices, to minimize inefficiencies in borrowed funds. Official development assistance could also be targeted at strengthening our tax system to make it more efficient and equitable.

- Reform and strengthen public debt governance with an emphasis on increasing transparency and accountability in borrowing and public debt utilization decisions. Additionally, setting up and enforcing effective rules on parastatal sector management to reign in borrowing by state-owned enterprises.

- Expand on inclusive policy building to promote an equitable agenda that transcends short-term changes in governance. For example, access to quality education is a fundamental pillar of social justice. An inclusive policy must make quality education accessible to all, regardless of economic and social circumstances. Hence, free education should be a must for all segments of the Ghanaian society including those who cannot afford to pay fees to access education at all levels, not just Free Senior High School.

However, the prevailing Free Senior High School being implemented by the current government requires urgent review and conversion into a targeted scholarship scheme run by the Scholarship Secretariat. Parents who have the means should pay for the education of their wards at all levels. This will allow for significant savings in both direct costs of the Free Senior High School and the administrative costs of a separate secretariat, as is currently the case.

The savings made should be applied to improving the quality of education through such means as better school infrastructure across all levels. This way, additional borrowing to finance education infrastructure may not be needed.

- Reduce public debt proceeds allocated towards stimulating the economy through consumption and focus on stimulating growth through infrastructure or capital investments to reduce youth unemployment and promote domestic production ideas and opportunities.

- Reduce the savings-investment gap by efficiently applying debt to finance industrial policies aimed at expanding export capacity through diversification of export-oriented activities, particularly in the agriculture and manufacturing sectors.

- Increased focus on international macroeconomics and global economic cycle and the implications for the domestic economy, investment, and debt finance.

- Increased efforts to strengthen domestic revenue mobilization through innovation. This includes government revenue and issues related to a narrow tax base and property tax avoidance.

Ghana currently faces significant developmental challenges, and the current financing framework, over-reliance on high-cost debt, mostly non-concessional, is unsustainable. As a result, there is an urgent need for the country to adopt an effective financing framework to meet the current challenges. There are no easy solutions for moving the country towards a sustainable debt path. However, a new financing framework that ensures debt sustainability would put the country on the path of steady progress towards attaining the Sustainable Development Goals and boost resilience even when future economic challenges emerge.

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Country/Region/Income Group	**Economic Indicators**	***Decadal Averages***			***Year***
		1990-1999	2000-2009	2010-2019	2020
Ghana	GDP growth (annual %)	4.3	5.4	6.8	0.4
Lower middle income	GDP growth (annual %)	3.4	5.4	5.1	-2.0
Sub-Saharan Africa	GDP growth (annual %)	1.9	5.3	3.7	-3.9
Ghana	GDP per capita (constant 2015 US$)	918.6	1,126.8	1,703.3	1,940.7
Lower middle income	GDP per capita (constant 2015 US$)	1,091.3	1,417.7	2,052.2	1,564.0
Sub-Saharan Africa	GDP per capita (constant 2015 US$)	1,168.4	1,323.4	1,616.0	2,242.1
Ghana	GDP per capita growth (annual %)	1.5	2.8	4.3	-1.7
Lower middle income	GDP per capita growth (annual %)	1.3	3.7	3.5	-4.5
Sub-Saharan Africa	GDP per capita growth (annual %)	-0.8	2.5	1.0	-5.2

Source: Author's Calculations using data from World Bank, World Development Indicators

Table A2. Health and Poverty Indicators

Country/Region	Health and Poverty Indicators	*Decadal Averages*		
		1990-1999	**2000-2009**	**2010-2019**
Ghana	Current health expenditure (% of GDP)	5.2	3.6	4.1
SSA	Current health expenditure (% of GDP)	-	5.2	5.1
Lower middle income	Current health expenditure (% of GDP)	-	4.0	4.1
Ghana	Maternal mortality ratio (modeled estimate, per 100,000 live births)	-	388.6	326.5
SSA	Maternal mortality ratio (modeled estimate, per 100,000 live births)	-	759.9	577.6
Lower middle income	Maternal mortality ratio (modeled estimate, per 100,000 live births)	-	367.1	274.9
Ghana	Mortality rate, under-5 (per 1,000 live births)	114.9	84.9	56.6
SSA	Mortality rate, under-5 (per 1,000 live births)	169.3	127.3	87.5
Lower middle income	Mortality rate, under-5 (per 1,000 live births)	112.9	82.9	57.2
Ghana	Poverty gap at $3.20 a day (2011 PPP) (%)	31.6	19.2	10.8
SSA	Poverty gap at $3.20 a day (2011 PPP) (%)	44.7	40.6	33.2
Lower middle income	Poverty gap at $3.20 a day (2011 PPP) (%)	31.8	25.3	15.4
Ghana	Poverty headcount ratio at $3.20 a day (2011 PPP) (% of population)	69.7	48.0	30.1
SSA	Poverty headcount ratio at $3.20 a day (2011 PPP) (% of population)	78.5	76.1	68.9
Lower middle income	Poverty headcount ratio at $3.20 a day (2011 PPP) (% of population)	71.8	63.7	45.5

Source: World Bank (World Development Indicators).

Table A3. Education Indicators

Country/Region	Education Indicators	*Decadal Averages*			*Year*
		1990-1999	**2000-2009**	**2010-2019**	**2020**
Ghana	Government expenditure on education, total (% of GDP)	4.1	6.0	5.3	-
SSA	Government expenditure on education, total (% of GDP)	3.3	3.3	3.7	-
Lower middle income	Government expenditure on education, total (% of GDP)	3.6	3.5	4.0	-
Ghana	Government expenditure on education, total (% of government expenditure)	14.9	22.1	24.0	-
SSA	Government expenditure on education, total (% of government expenditure)	-	17.2	16.4	14.1
Lower middle income	Government expenditure on education, total (% of government expenditure)	-	16.8	15.9	-
Ghana	School enrollment, secondary (% gross)	35.2	40.0	66.2	77.7
SSA	School enrollment, secondary (% gross)	24.0	31.5	42.8	-
Lower middle income	School enrollment, secondary (% gross)	44.1	52.5	66.3	-
Ghana	School enrollment, secondary (gross), gender parity index (GPI)	0.7	0.9	0.9	1.0
SSA	School enrollment, secondary (gross), gender parity index (GPI)	0.8	0.8	0.9	-
Lower middle income	School enrollment, secondary (gross), gender parity index (GPI)	0.8	0.9	1.0	-

Source: World Bank (World Development Indicators).

Table A3: Unemployment Indicators

Country/Region	Unemployment Indicators	*Decadal Averages*			*Year*
		1990-1999	2000-2009	2010-2019	2020
Ghana[1]	Unemployment, female (% of female labor force)	7.1	7.7	4.8	-
Lower middle income[2]	Unemployment, female (% of female labor force)	5.2	5.9	5.5	-
SSA	Unemployment, female (% of female labor force)	6.5	6.5	6.4	-
Ghana	Unemployment, male (% of male labor force)	6.0	7.3	4.5	-
Lower middle income	Unemployment, male (% of male labor force)	5.3	5.3	5.0	-
SSA	Unemployment, male (% of male labor force)	6.5	5.9	5.6	-
Ghana	Unemployment, total (% of total labor force)	6.6	7.6	4.6	*4.5**
Lower middle income	Unemployment, total (% of total labor force)	5.3	5.5	5.2	6.2
SSA	Unemployment, total (% of total labor force)	6.5	6.2	6.0	6.6
Ghana	Unemployment, youth female (% of female labor force ages 15-24)	5.9	13.1	10.2	-
Lower middle income	Unemployment, youth female (% of female labor force ages 15-24)	14.3	16.4	18.2	-
SSA	Unemployment, youth female (% of female labor force ages 15-24)	12.3	12.5	12.9	-
Ghana	Unemployment, youth male (% of male labor force ages 15-24)	5.3	13.1	9.9	-

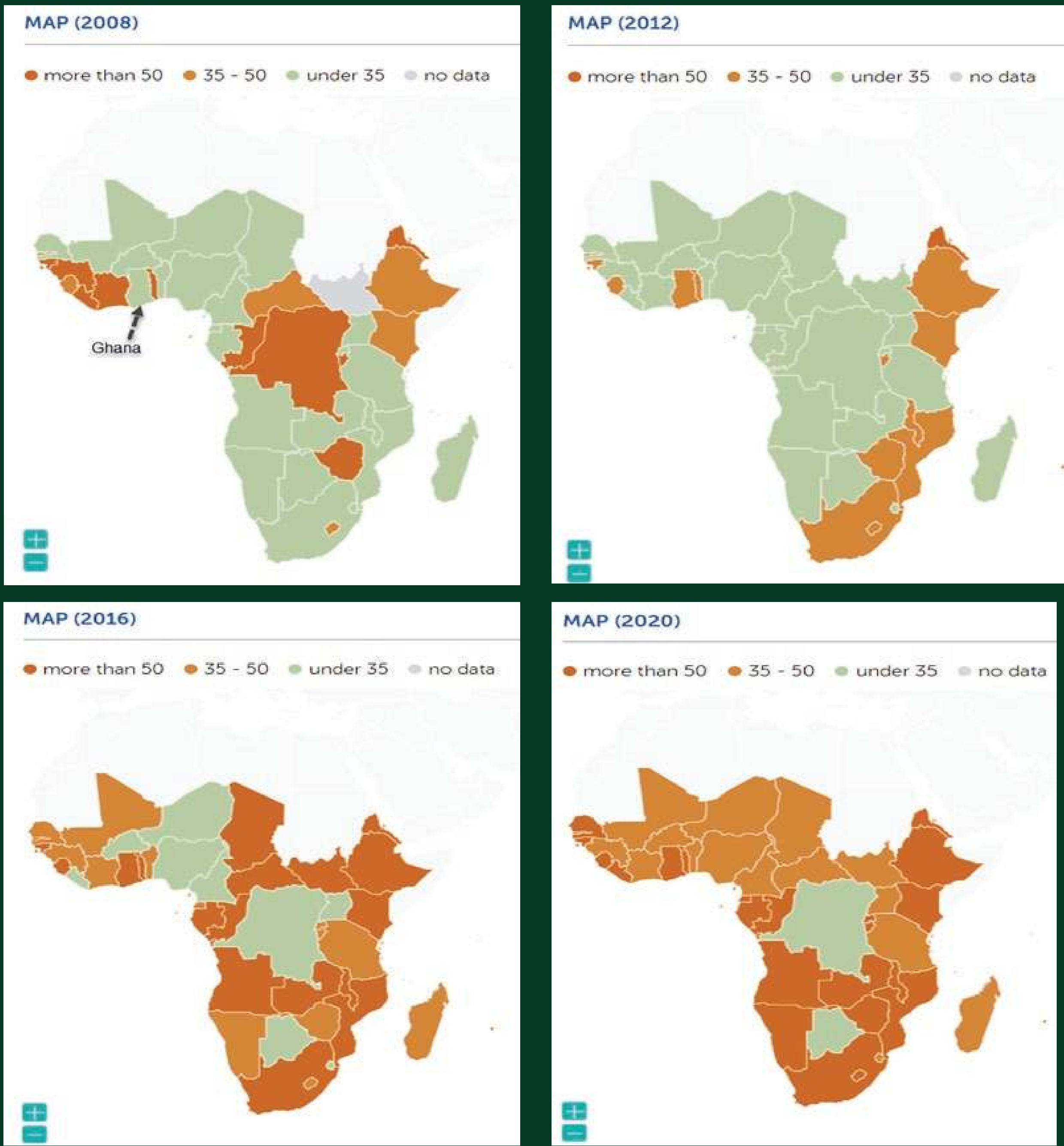
[1] Ghana's unemployment data are based on national estimates, with the exception of the figure for 2020*, which is the ILO modeled version.
[2] SSA and Lower middle income unemployment data based on International Labor Organization (ILO) modeled estimates.

Table A3: Unemployment Indicators

Lower middle income	Unemployment, youth male (% of male labor force ages 15-24)	13.9	14.7	15.9	-
SSA	Unemployment, youth male (% of male labor force ages 15-24)	12.3	11.8	11.0	-
Ghana	Unemployment, youth total (% of total labor force ages 15-24)	5.6	13.1	10.1	-
Lower middle income	Unemploy ment, youth total (% of total labor force ages 15-24)	14.0	15.1	16.5	-
SSA	Unemployment, youth total (% of total labor force ages 15-24)	12.2	12.1	11.7	-

Source: World Bank (World Development Indicators).

Figure A1: Government Debt (Percent of GDP)



April 2021

Source: IMF African Regional Economic Outlook,

Table A4: Government Debt (Percent of GDP)

Rank 2021)	Country	2008	2012	2016	2020	2021*
1	Cabo Verde	57.6	91.1	128.4	139.0	137.6
2	Mozambique	33.2	37.4	119.9	122.2	125.3
3	Zambia	19.2	25.4	60.6	117.8	118.7
4	Angola	31.4	26.7	75.7	127.1	110.7
5	Seychelles	192.1	80.1	69.1	98.4	110.4
6	Congo, Republic of	69.6	30.2	91.0	101.7	90.5
7	Mauritius	49.4	55.1	65.0	87.8	87.7
8	**Ghana**	**24.9**	**35.6**	**57.1**	**78.0**	**81.5**
9	South Africa	26.5	41.0	51.5	77.1	80.8
10	Guinea-Bissau	148.8	47.3	57.0	78.1	78.1
11	Malawi	33.1	40.3	55.1	67.3	76.8
12	Burundi	102.5	41.4	46.1	69.5	75.6
13	Gambia, The	39.5	49.5	80.9	75.8	73.9
14	São Tomé and Príncipe	58.5	81.0	95.3	81.4	72.4
15	Kenya	41.5	43.9	50.5	68.7	71.5
16	Namibia	18.8	24.0	44.8	65.7	71.4
17	Gabon	20.1	21.4	64.2	72.5	71.1
18	Sierra Leone	42.4	36.4	60.7	71.9	70.4
19	Senegal	19.1	34.5	47.5	65.8	66.8
20	Rwanda	18.2	19.0	36.4	61.0	66.0
21	Togo	68.7	35.6	60.3	57.6	60.0
22	Liberia	222.1	19.4	28.5	61.8	57.0
23	Ethiopia	38.5	42.2	54.9	55.3	56.0
24	Eswatini	14.2	14.4	24.9	47.1	52.8
25	Zimbabwe	61.1	38.3	48.5	88.9	51.4
26	Lesotho	47.7	39.8	40.4	50.3	49.8
27	Uganda	15.7	19.5	31.0	45.7	48.8
28	Benin	18.3	19.5	35.9	45.4	47.7

Table A4: Government Debt (Percent of GDP)

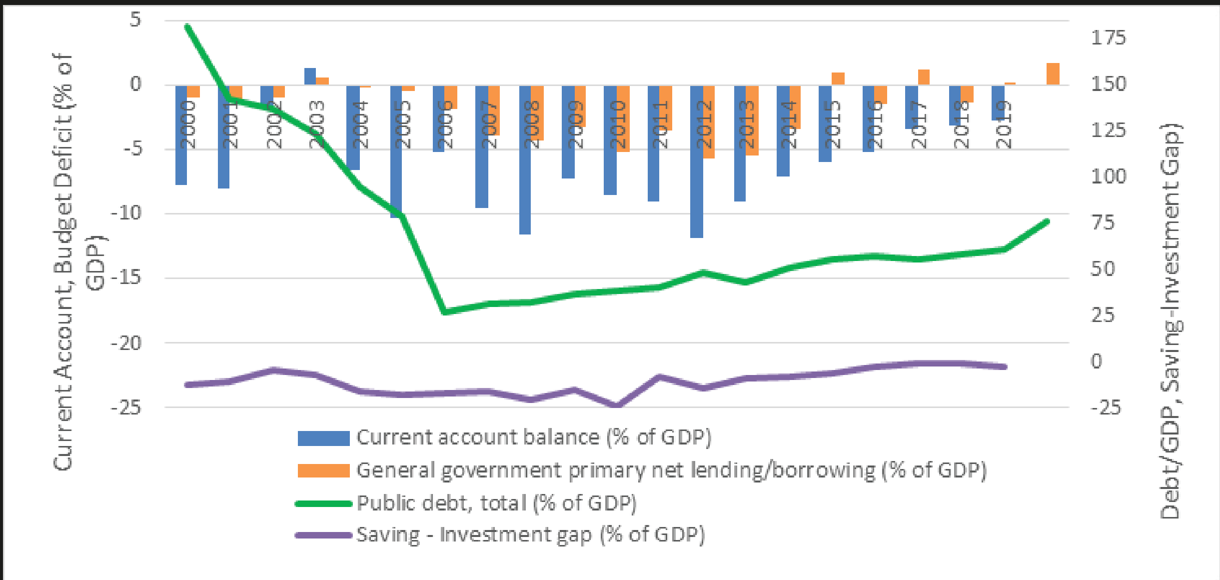
30	Madagascar	30.9	30.4	40.3	43.6	46.9
31	Burkina Faso	23.0	25.2	33.3	44.3	46.8
32	Côte d'Ivoire	51.2	32.6	35.6	45.7	46.3
33	Mali	20.2	25.4	35.9	44.1	46.1
34	Niger	14.2	18.1	32.8	44.2	44.5
35	Equatorial Guinea	0.5	7.1	41.1	51.1	44.1
36	Cameroon	11.7	15.4	33.3	43.2	42.5
37	Guinea	58.5	27.2	42.5	41.4	42.3
38	Central African Republic	35.8	31.5	53.9	44.9	42.2
39	Chad	20.1	28.8	51.3	43.0	41.7
40	Tanzania	21.2	29.2	37.0	38.2	37.9
41	Nigeria	7.3	17.6	23.4	35.1	31.9
42	Comoros	33.2	25.1	15.1	26.8	30.0
43	Botswana	7.7	19.2	15.6	20.0	25.3
44	Congo, Dem. Rep. of the	87.8	21.8	19.5	15.2	12.4
	Sub-Saharan Africa	24.1	28.9	43.3	57.8	56.2

Table A5. SSA International Sovereign Bond Issuances: 2007 – 2020 (In million USD)

	2007	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total, constant 2019 USD'mln	% of sample total	2007-2020: Eurobonds/ debt stock (%)
Seychelles		169								15			213	0.2	n.a.
Rwanda					400								439	0.5	5.4
Benin											567		567	0.6	10.9
Tanzania					600								658	0.7	2.6
Cameroon							750						809	0.9	5.9
Ethiopia						1,000							1,080	1.2	3.6
Namibia			500				750						1,377	1.5	n.a.
Mozambique					500						900		1,449	1.6	7.0
Gabon						1,500	700					1,000	3,363	3.7	44.7
Zambia				750		1,000	1,250						3,263	3.6	11.0
Senegal			500			500			1,100	2,200			4,495	5.0	26.4
Kenya						2,000				2,000	2,100		6,296	7.0	16.7
Angola							1,500			3,500	3,000		8,181	9.1	12.3
Ghana	**750**				**1,000**	**1,000**	**1,000**	**750**		**2,000**	**3,000**	**3,000**	**12,979**	**14.3**	**42.1**
Côte d'Ivoire		2,300				750	1,000		2,482	2,100		1,200	10,497	11.7	42.4
Nigeria			500	300	500		1,118		4,500	3,500	750		11,664	13.0	16.8
South Africa	1,000	2,000	750	1,500	2,000	1,000		4,250	2,500	2,000	5,000		23,546	26.2	14.0
Total, current USD' Millions	1,000	4,469	2,250	2,550	5,000	8,750	8,068	5,000	10,582	17,315	15,317	5,200			
Total, constant 2019 USD'mln	**2,158**	**5,240**	**2,557**	**2,839**	**5,487**	**9,449**	**8,703**	**5,326**	**11,037**	**17,629**	**15,317**	**5,137**	**90,879**		

Source: Various sources, including Bloomberg (Ndikumana et al, 2020).

Figure A2: Financing gaps and debt in Ghana, 2000 - 2020



Source: World Bank, World Development Indicators Online

Table A6. Specific Case of Debt of Parastatal Companies

List of Outstanding Guarantees, end 2020 (US$' Million)					
S/N	Beneficiary	Project Title	Currency	Disbursed Outstanding Debt (in original currency)	US$Equivalent
1	Ghana Ports and Harbours Authority (GPHA)	Design, Civil and Dredging Works in the Ports of Takoradi, Ghana	EUR	128.1	157.5
2	Ghana Ports and Harbours Authority (GPHA)	Design, Civil and Dredging Works in the Ports of Takoradi, Ghana II	EUR	160	196.8
3	Volta River Authority (VRA)	Kuwait Fund Debt Relief Loan	KWD	6.2	20.2
4	Volta River Authority (VRA)	Aboadze-Volta Transmission Line Pj.	KWD	1.1	3.5
5	Ghana Grid Company Limited (GRIDCo)	Financing of the Tumu-Han-Wa Transmission Project	EUR	16.8	20.6
6	Ghana Grid Company Limited (GRIDCo)	Financing of Sub-stations Reliability Enhancement Project (SREP)	EUR	13.5	16.62
	Total				415.5

Source: Ministry of Finance Annual Public Debt Report, 2020

Table A7. ECOWAS Rationalized Convergence Criteria (June 2021)

Primary Criteria		Criteria	Target	Ghana June 2012
	1	Budget Deficit (Incl. Grants)/GDP	≤ 3%	5.1
	2	Inflation (annual average)	≤ 5%	7.8
	3	Central Bank Budget Deficit Financing	10%	Zero Financing
	4	Gross External Reserves	≥ 3 mont hs	5
Secondary Criteria				
	5	Nominal Exchange Rate	± 10%	0
	6	Public Debt /GDP	≤ 70%	76.2

Source: GoG, BoG, MoF

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