IN THE THIRD SESSION OF THE SIXTH PARLIAMENT OF THE FOURTH REPUBLIC OF GHANA

REPORT OF THE FINANCE COMMITTEE

ON

REQUEST FOR APPROVAL OF THE 2015 EUROBOND FINANCING PLAN FOR AN AMOUNT UP TO ONE BILLION, FIVE HUNDRED MILLION UNITED STATES DOLLARS (US$1.5 BILLION) IN RESPECT OF LIABILITY AND MANAGEMENT AND GENERAL BUDGET SUPPORT.

JULY, 2015

IN THE FIRST SESSION OF THE SIXTH PARLIAMENT OF THE FOURTH REPUBLIC OF GHANA

REPORT OF THE FINANCE COMMITTEE ON THE REQUEST FOR APPROVAL OF THE 2015 EUROBOND FINANCING PLAN FOR AN AMOUNT UP TO ONE BILLION, FIVE HUNDRED UNITED STATES DOLLARS (US$1.5 BILLION) IN RESPECT OF LIABILITY MANAGEMENT AND GENERAL BUDGET SUPPORT.

1.0 INTRODUCTION

Further to the presentation by the Hon. Minister for Finance, Mr. Seth Emmanuel Terkper on Tuesday 21st July, 2015 Supplementary Budget for 2015 financial year, the request for approval of the 2015 Eurobond Financing plan for an amount up to One Billion, Five Hundred United States Dollars (US$1.5 Billion) in respect of Liability Management and General Budget Support was referred to the Finance Committee for consideration and report pursuant to Order 171 of the Standing Orders of the Parliament of Ghana.

The Committee was assisted in its deliberations by the Hon. Minister for Finance, Mr. Seth Terkper and his Deputy Mr. Cassiel Ato Forson and technical team of the Ministry of Finance.

The Committee is grateful to the Hon. Minister and the Deputy Minister as well as the officials from the Ministry of Finance for the assistance.

2.0 REFERENCE

The following additional documents were referred to during the Committee's deliberations:

i. The 1992 Constitution of the Republic of Ghana;

ii. The Standing Orders of the Parliament of Ghana;

iii. Loans Act, 1970, (Act 335)

3.0. BACKGROUND

It will be recalled that in December 2013, Cabinet and Parliament approved a 2014 Eurobond funding plan with the following elements:

a. A ceiling of up to USD$1.00 billion for debt refinancing and capital expenditures with an option to increase further by $500.00 million (or a total of $1.5 billion in favourable market conditions with the additional amount targeted at the refinancing of more expensive domestic and international debt.

b. A further USD$1.0 billion under a two –year master registration that can be tapped for specific projects as and when specific self-financing projects are ready for execution and subject to Parliamentary approval of the relevant project documents.

However, while government in 2014 issued a USD$1.00 billion Eurobond, no transactions were undertaken under the two-year master registration option because of the decision to establish the Ghana Infrastructure Investment Fund (GIIF) to focus on commercial infrastructure financing. In addition, the planned refinancing of the 2017 Eurobond did not take place because of unfavourable market conditions. The proposed bond transaction in 2015 is thus, designed to achieve the refinancing objectives and provide cheaper and longer-term resources for financing 2015 budget.

4.0 PURPOSE OF THE ISSUE

The purpose of the bond issue, among others, is to continue the diversification of the country's sources of funding. The indicative utilization of the 2015 Eurobond is as follows:

- ❖ The refinancing of domestic and external debt; and
- ❖ The financing of the 2015 budget in order to reduce the reliance on short term expensive domestic debt.

5.0 COMPONENTS OF THE PROGRAMME

The proposed financing plan involves issuing of up to US$ 1.5 billion in Eurobonds to be disbursed as follows:

❖ Liability Management	US$ 0.50 billion
❖ General Budget support	US$ 1.00 billion
Total	**US$ 1.50.00 billion**

6.0 OBSERVATIONS

Objective of the Issue

Briefing the Committee on the purpose of the issue, the Minister for Finance stated that the proposed 2015 bond transaction has been designed to achieve the refinancing objectives and provide cheaper and longer-term resources for financing the 2015 budget. The Hon. Minister explained that the maturity profile of public debt indicates that currently 75% of domestic debt is short-to-medium-term with short-term debt constituting 39% as at December, 2014. In addition, there are three Eurobonds outstanding with maturity profiles of 8.5% October 2017 (US$531m), 7.875% August 2023 (US$1,000m) and 8.125% January 2026 (US$1,000m) respectively. The Hon. Minister stressed that the current maturity profile of our domestic debt poses a number of challenges which includes high risks associated with the frequent rollover of short and medium term debt because of volatile interest rates. Further, the current high domestic interest rate also indicates that rollovers are increasing the debt services component of expenditures.

The bond issue for the financing of the existing debt will therefore create a fiscal space for a significant amount of domestic debt to be rolled over into longer maturity debt with lower interest costs.

Impact on the overall Debt stock

Responding to the Committee's concerns on the impact of the bond issue on the national debt stock and the ability of the country to honour its debt obligations, the Hon. Minister pointed out that the impact of the Sovereign Bond issue will be relatively neutral with respect to the overall debt stock as it will mostly replace debt that is already included in the public debt stock. Further, the portion of the proceeds that would be used to finance capital expenditures in the 2015 budget will be in lieu of the previously projected domestic financing which is even more expensive.

Uniqueness of the 2015 Bond

Touching on the uniqueness of the 2015 bond, the Hon. Minister indicated that the structure of the proposed bond will differ from previous Eurobond transactions in two basic ways.

First, the bond issue will be backed by sinking fund to be funded from the portion of the excess of the Stabilization Fund earmarked for debt amortization. The amortization and sinking fund plan backed by Petroleum Revenue Management Act (PRMA) the Hon. Minister added will smoothen the redemption obligations between 2023 and 2026.

The second unique feature the Hon. Minister mentioned was that the bond issue will be backed by the World Bank Policy-Based Guarantee which would enable the bond to be issued with a higher rating than the current sovereign guarantee, thus reducing the interest rate.

7.0 CONCLUSION

The Committee after its deliberations respectfully recommends to the House to adopt its report and approve by resolution, the Request for Approval of the 2015 Eurobond

Financing Plan for an amount of up to One Billion, Five Hundred Million United States Dollars (US$1.5 Billion) in respect of Liability Management and General Budget Support in accordance with Article 181 of the 1992 Constitution, Section 7 of the Loans Act 1970, (Act 335) and Order 171 of the Standing Orders of the House.

Respectfully submitted.

HON. JAMES KLUTSE AVEDZI
CHAIRMAN, FINANCE COMMITTEE

MRS. ROSEMARY A. SARKODIE
CLERK, FINANCE COMMITTEE

July, 2015