

MEMORANDUM TO PARLIAMENT

BY THE

MINISTER FOR FINANCE

ON

GOVERNMENT OF GHANA'S 2014
EUROBOND PROGRAMME

ACC NO : 3786

Class No : PM/EUROBOND/14

ACTION REQUIRED

1. Honourable Members of Parliament are invited to consider and approve the Government's 2014 Eurobond programme. The components of the programme are as follows:

- A ceiling of up to \$1,000 million for general budget purposes with an option to increase the issue to \$1,500 million in favourable market conditions with the additional amount targeted at the refinancing of more expensive domestic and international debt.
- A further \$1,000 million 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.

BACKGROUND

2. The 2014 Budget Statement indicates a number of initiatives to achieve fiscal consolidation while maintaining growth. This requires resources for the needed infrastructure under the government's medium-term investment plan. In addition, the debt strategy outlined in the 2014 Budget indicates that Government will continue to look for market opportunities to reduce debt service costs.

3. Ghana needs to diversify her sources of funding for major infrastructure developments by tapping the global bond market. The reasons include dwindling access to concessional funds with the attainment of the lower middle income status and opportunities to borrow at much lower cost on international markets compared to the domestic market. This new strategy was given expression in the 2013 Eurobond transaction which saw the issue of \$750 million for cash and \$250 million for an early redemption of part of the earlier Ghana 2017 bond.

4. Ghana is well regarded by the international investor community reflected in the fact our outlook remains stable against domestic and external volatility. It is noteworthy that the recent Fitch downgrade did not impact our market sensitive market indicators (Eurobond prices, domestic bonds and the exchange rate). Market participants are favourably impressed with Ghana's recent economic growth and future prospects. Global appetite for Government of Ghana bonds has been amply illustrated in the recent massive oversubscription of Government of Ghana's domestic and international bonds.

JUSTIFICATION

5. Interest rates have edged up since Ghana closed its last Eurobond transaction in August 2014. Experts are predicting that rates will continue to edge upwards as the U.S. economy picks up and the tapering of quantitative easing becomes a reality. Current market conditions suggest that Ghana can enter the market today with interest rates in the 8.5 – 9% area. Although this is higher than the interest rate on the 2014 transaction (7.875%), market rates have since increased across all maturities and ratings. It is also important to note that current Eurobond rates are much lower than domestic rates which are currently in the 19% area. In effect, the exchange rate of the cedi will have to depreciate by as much as 10% annually (a most unlikely scenario based on recent experience) for domestic bonds to have the same exchange rate adjusted rates as Eurobonds.

6. As indicated in the 2014 Budget, our future borrowings will be supported by various risk mitigation measures. These will include:

- the establishment of a Debt Service Account and sinking funds under the proposed Ghana Infrastructure Fund in order to improve liability management.
- the use of MIGA guarantees and World Bank/African Development bank partial credit guarantees to minimize the use of sovereign guarantees, thus enhancing our debt sustainability, and
- A Debt Service Account denominated in foreign currency and funded with our foreign currency inflows. In order to mitigate the exchange rate.

Lessons from Previous Eurobond Transactions

7. Ghana has learned some important lessons from past Eurobond transactions which should inform future Eurobond transactions. There is a need for a more proactive and consistent engagement with investors as practiced by active Eurobond issuers and more recently African issuers such as Nigeria, South Africa and Botswana. In April 2013, the Ministry of Finance organized non-deal road show in London and New York during which we were able to make presentations to investors on Ghana's credit story. However this was a very small start as we were only able to meet a small fraction of active and potential investors in Government of Ghana Bonds. During the Eurobond road show many investors expressed the desire to engage more often in order that they can have an accurate picture of developments in Ghana. A more active engagement with investors and more frequent issues will grow the appetite for Ghana debt and facilitate the distribution of future Eurobonds.

8. Ghana missed a low interest rate borrowing window which effectively ended on June 19, 2013 when the U.S. Federal Reserve Chairman, Robert Bernanke, signalled a possible tapering of quantitative easing. Zambia, with the

same rating as Ghana, went to the market in September 2012 and issued a 10-year bond at 5.625%; Rwanda, with a lower credit rating than Ghana went to the market in May 2013 and issued a 10 year bond at 6.875%. This indicates and experts confirmed that Ghana could have issued in the 5-7% area had it gone to the market two months earlier. Our delay in going to the market was primarily because of our demanding internal processes including a six-week procurement exercise to engage transaction advisors in accordance with the Public Procurement Act and the need for Parliamentary approval. In addition, Ghana's prospectus had not been updated since the 2007 transaction.

9. There is, therefore, a need to improve our processes to position the country to tap the market opportunistically. The proposed procedures to speed up the processes include the following:

1. Cutting down on the procurement time for the recruitment of transaction advisors which took about six weeks. Frequent Eurobond issuers usually preselect a panel of Lead managers, Co-managers, International Counsel and Local Counsel who can be mobilized on short notice for a transaction.
2. Seeking Parliamentary approval as part of the annual budget approval process so that Eurobond transactions are pre-approved through the budget.
3. Updating our key documents (especially the Prospectus) on an ongoing basis so that we are in a regular state of readiness.
4. The Ministry of Finance working with the Bank of Ghana and the Attorney-General's Department will prepare for more regular issues in the Eurobond market by institutionalizing the Capital Market Committee as a permanent Committee to plan and manage Eurobond transactions.

10. The ceiling of US\$1,000 million imposed by Parliament turned out to be inflexible. Given the size of the oversubscription, Ghana could have expanded the exchange offer to about US\$300 million to enable us to roll over a larger amount of the Ghana 2017 bond into the new Ghana 2023 bond. Furthermore, the country could have refinanced more domestic debt at competitive rates. Parliament will therefore be requested to attach an option to its approval that allows Government to exceed the prescribed ceiling in the event of an oversubscription provided the additional amounts are used for debt restructuring and a report submitted to Parliament immediately after to justify the excess.

THE 2014 PROGRAMME

11. In line with the new strategy, the 2014 Eurobond program is intended to satisfy the following activities

1. The financing of capital investments in the Budget, counterpart funding and the refinancing of both domestic and international debt in order to save on debt service costs.
2. The financing of self-financing projects.

Medium-Term Note Program

12. In addition to the proposed issue of \$1,000 million for general budget purposes, Government intends to issue specific Eurobonds to finance specific projects. These Eurobond issues will be offered under a "Medium-Term Note" (MTN) Program which is designed to enable issuers to offer debt securities on a regular and/or continuous basis. Under an MTN program, Ghana can tap the market as and when needed and across the maturity spectrum. The MTN program will allow Ghana to file a master set of documents for the duration of the program.

13. Government intends to use the MTN only for self financing projects. Indicative projects include the following:

- Inland ports
- Tema and Takoradi Port expansion
- Urban railway (Accra and Takoradi)
- Airport City Development (Tamale and Prampram)
- Energy Sector Infrastructure

14. Projects will be fully prepared with feasibility studies and implementation plans and submitted to Parliament before the MTN financing is accessed. Government also intends to deploy the range of risk management instruments available through Multilateral Investment Guarantee Agency (MIGA), World Bank and the African Development Bank in order to achieve significant credit enhancement, thus reducing the cost of borrowing.

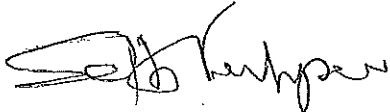
CONCLUSION

16. In view of the need to accelerate infrastructure development in the country, and to reduce debt service costs as part of fiscal consolidation I respectfully urge Honourable Members of Parliament to consider and approve the Government's 2014 Eurobond program with the following components:

- A ceiling of up to \$1,000 million for general budget purposes with an option to increase the issue to \$1,500 million in favourable market conditions with the additional amount targeted at the refinancing of

more expensive domestic and international debt, with a report submitted to Parliament after the transaction to justify the exercise of the option.

- A further \$1,000 million under a two-year Medium-Term Note 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.



HON. SETH E. TERKPER
MINISTER OF FINANCE

DATED... 10/12/13...

In case of reply the number and date of this letter should be quoted.



FREEDOM AND JUSTICE

OFFICE OF THE PRESIDENT

P.O. BOX 1627

ACCRA

5TH DECEMBER, 2013

My Ref. No

OP/CA. 1/124


Your Ref. No

CONFIDENTIAL

REQUEST FOR EXECUTIVE APPROVAL OF THE 2014 EUROBOND PROGRAMME

At its thirteenth meeting, held on Thursday, 5th December, 2013 Cabinet considered a Memorandum submitted by the Minister for Finance on the above subject.

2. By this Memorandum, Cabinet was invited to consider, approve, and recommend same to Parliament for consideration:
 - i. A Eurobond borrowing program in 2014 as part of the net foreign financing.
 - ii. The key component of the borrowing strategy including amounts and the utilization of proceeds.
3. After discussing the Memorandum, Cabinet endorsed the request which had earlier received Executive Approval.
4. It would be appreciated if you could take necessary action on the decision.


ROGER K. ANGSOMWINE
SECRETARY TO THE CABINET

HON. MINISTER
MINISTRY OF FINANCE
ACCRA

cc: Chief of Staff
Executive Secretary to H.E. The President
Secretary to H.E. The Vice President