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THE DYNAMICS OF PUBLIC AND PRIVATE DEBT IN GHANA

Akingbade Urungbodi Aimola PhD Student
Department of Economics, University of South Africa
E-mail: Jafbroms@yahoo.com / 53830490@mylife.unisa.ac.za.

Professor Nicholas M. Odhiambo
Department of Economics, University of South Africa
E-mail: odhianm@unisa.ac.za. / nmbaya99@yahoo.com

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Abstract: This paper explores the dynamics of public and private debt in Ghana for the past 32 years. Ghana's total public debt stock to Gross Domestic Product (GDP) ratio has remained above the 60.0% sustainability threshold recommended by the West Africa Monetary Zone (WAMZ) since 2013. Implemented bank reforms in the country show an upward trend for domestic credit to private sector by banks as a percentage of GDP. Using exploratory review approach, the paper identified fiscal dominance, cost of borrowing, deterioration in export earnings, ineffective fiscal, monetary and debt management policies coordination as factors responsible for changes in total public debt stock. On the other hand, increased domestic borrowings by government from the banks, and Deposit Money Banks' (DMBs)' adverse selection in private sector credit allocation affect changes in domestic credit to the private sector by banks. Of these causes, fiscal dominance is the major determinant of public and private debt in Ghana. The study, therefore, recommends that government should pursue fiscal operations that are necessary to put public debt on a declining path. In addition, effective coordination of fiscal, monetary and debt management policies need to be strengthened together with the autonomy of the Bank of Ghana in the use of its monetary policy instruments.

Keywords: Ghana; public debt; private debt; fiscal dominance; policy coordination

JEL Classification: E52, E62, H63

1. Introduction

Recent studies have identified several factors underpinning changes in public and private debt in Ghana. Public debt changes were largely as a result of fiscal imbalances, low commodity prices, narrowing tax base and higher borrowing cost (Ghana Medium-Term Debt Strategy (MTDS), 2010 and Africa Forum and Network on Debt and Development (AFRODAD), 2013). For private debt, the implementation of indirect control monetary policy approach where market instruments are used to determine interest rates and allocate credit, has contributed

to changes in domestic credit to private sector by banks (Sowa, 1991). For instance, between 1985 and 2017, total nominal public debt to Gross Domestic Product (GDP) ratio averaged 128.2%, while growth in nominal total public debt averaged 31.6%. Domestic credit to private sector by banks as a percentage of GDP averaged 10.9%, while nominal growth averaged 41.3% for the same period (Africa Development Indicators, 1992, 2001; World Economic Outlook Database, 2018).

As noted by Englama *et al.* (2014) and Ekpo and Omoruyi, (2013), debt management requires extensive coordination with fiscal and monetary authorities in achieving financial and macroeconomic stability. This ensures the commitment of decision makers to macroeconomic objectives, especially in preventing build-up of unsustainable debt and ensuring that macroeconomic stability is enhanced through mutual supportive information sharing. In addition, the study by Vlad et al. (2016) shows that a significant relationship exists between public debt and total revenues from taxes and social contributions, and for countries to cover or decrease accumulated public debt, there is need for increase public revenues through a higher fiscal pressure. This suggests that the level of public debt influences the implemented fiscal policy in a country. Money and credit analysis ensure that important information stemming from money and credit are considered in the monetary, credit policy decision-making process, and provide a cross-check from a medium- to long-term perspective of the assessment of risks to price stability (Emenike, 2016).

This paper focuses on public debt and domestic credit to the private sector by banks (private debt) in Ghana for the past 32 years, and aims to review their dynamics in Ghana, while also appraising relative successes and failures in its management.

The rest of the paper is organised as follows: Section 2 discusses the evolution of public debt and public debt management strategy in Ghana. Section 3 presents developments in domestic credit to private sector by banks, and its management in Ghana. Section 4 analyses trends in public and private debt in Ghana. Section 5 highlight policy challenges affecting public and private debt management in Ghana, while section 6 concludes the paper.

2. The Evolution of Public Debt in Ghana

Public debt in Ghana can be traced back to the early post-colonial era. The level, structure and management of public debt have evolved substantially over the past several decades (Ministry of Finance, Ghana, 2017). After independence in 1957, Ghana embarked on a rapid transformation of its economy from primarily agriculture to a mixed agricultural-industrial economy. From its foreign exchange

receipts and tax revenue, government provided the investment required to fund industrial and agricultural projects. Resources were insufficient to finance these projects, so government had to resort to deficit financing and foreign borrowing to pay for essential imports and state projects. Plants and equipment for various projects were financed largely by foreign suppliers' credits. The quick maturity of these credits and heavy reliance on them caused debt problems to emerge early in the post-independent development effort. The implementation of these projects, among many others, dictated the pace of debt accumulation in Ghana (AFRODAD, 2013).

External debt rose sharply from almost nothing at independence to nearly $600 million, consisting of mainly suppliers' credits (over 80%) that were due for repayment (AFRODAD, 2013). In the mid-1960s Ghana was ensnared in debt and rising inflation. The debt burden during this period was partly resolved through debt rescheduling agreements in 1966, 1968 and 1970 respectively. In the 1970s, Ghana did not accrue significant amounts of additional foreign debt as a result of the country being blacklisted by the international financial community following it repudiation of some external public debts. In 1983 Ghana accepted undergoing structural adjustment reforms under the guidance of the World Bank and the International Monetary Fund (IMF). In the 1980s, total external public debt was on the increase as a result of the implementation of the Economic Recovery Programme (ERP) that had most projects funded by foreign loans. The ERP, among other aims, was designed at enabling Ghana to grow out of its debt and balance of payment problems through boosting exports and attracting foreign direct investment (AFRODAD, 2013).

The 1990s witnessed substantial changes in Ghana's public debt, for instance total public debt to GDP ratio decreased from 339.7% in 1990 to 142.2% in 1999 with external public debt constituting more than 80.0% of total debt portfolio (World Economic Outlook Database, 2018). External public debt for this period rose on average by 7.6% annually (Fosu, 2001). By end 2000, external public debt stock stood at US$5.58 billion, while total public debt to GDP ratio stood at 182.2% of GDP, with public debt servicing accounting for 32.0% and 39.0% of total government expenditure in 1999 and 2000 respectively (AFRODAD, 2013). In 2004, under the Highly Indebted Poor Countries (HIPC) initiative, Ghana secured debt relief, which resulted in a -12.5% decline in external public debt stock from US$6.99 billion as at end 2003 to US$6.12 billion end 2004. Additional debt relief was secured under the Multilateral Debt Relief Initiative (MDRI) in 2006, which resulted in a -62.6% decrease in external public debt stock from US$6.05 billion in 2005 to US$2.26 billion in 2006 (Africa Development Indicators, 1992, 2001 and World Economic Outlook Database, 2018). In spite of the overall reduction in

external debt stock as at end 2006 due to debt forgiveness, Ghana's total public debt stock has been on the rise, with increases in both external and domestic debt stock (AFRODAD, 2013).

Government securities, as well as the market for securities, were almost non-existent in Ghana after independence and up to the 1970s. The financial system, particularly the money market, was underdeveloped (Brownbridge, 1995). Government could not borrow from the domestic market to support the budget, and since it was blacklisted, government had to rely on the Bank of Ghana (BOG) to finance its budget deficits by printing money. This caused strong inflationary pressures in the economy and the deterioration of the financial sector (AFRODAD, 2013). The Bank of Ghana bills were introduced in 1988 to take care of excess liquidity in the economy and to provide investment opportunities for banks. This improvement led to the introduction of 30-day bill to deal with the short end of the market and longer-dated bills (182-day and 2 years), and the 3-year and 5-year bonds. These developments further enhanced the development of the domestic debt market with the issuance of various short-, medium- and long-term debt instruments. The need to finance fiscal deficits and the issuance of domestic debt instruments for the purposes of domestic debt management strategies had all contributed to increase in domestic public debt stock in Ghana (AFRODAD, 2013).

Public debt management in Ghana as part of the core functions of the Ministry of Finance had evolved in the last decades. The current Debt Management Division (DMD) at the Ministry of Finance owed its origin in the External Debt Secretariat (EDS) that was set up in the early 1970s, located outside the Ministry of Finance, devoid of the Minister's control and supervision. EDS became part of the Ministry of Finance and Economic Planning (MOFEP) in the late 1980s during the Structural Adjustment and Economic Reform era and named Debt Management Unit (DMU). It was responsible for advising government on prudent external aid and debt management policy and strategy. By the early 2000, the unit was managing government's total public debt portfolio. Since then, the Division has undergone several changes, eventually becoming a full-fledged Division of the Ministry of Finance in 2004, operating directly under the supervision of the Deputy Minister in charge of Finance (AFRODAD, 2013).

The Minister of Finance has the sole mandate to borrow on behalf of the government of the Republic of Ghana. This mandate is operationally conferred on the Debt Management Division to source, administer and manage public and quasi-public debts, and to develop strategies for effective public debt management. The Division manages total public debt, which includes all financial obligations over which government exercises direct and indirect control. The Division manages and reports on direct government debt and guaranteed debt, which may be categorised

into but not limited to, direct government-to-government loans, multilateral loans, trade credits, commercial loans, other structured financing facilities and all forms of grant with maturities spanning short-term, medium-term to long-term (AFRODAD, 2013).

2.1. Public Debt Management Strategy in Ghana

In Ghana, the macroeconomic framework underpinning the Medium Term Debt Strategy (MTDS) is set in line with projections set out in the budget statement. The macroeconomic framework is updated each year with budget figures, after which the Medium Term Debt Strategy analysis and report is revised annually in line with managing external and domestic debt and other financial liabilities of the government (MTDS, 2010).

The Government of Ghana published its maiden Medium Term Debt Strategy in December 2010. The strategy spanned 2011 to 2013. Its focus for the period was the achievement of an optimal mix for external and domestic financing needs at the least possible cost at a prudent level of risk (Ghana MTDS, 2010). On external public debt, there was the need for the right mix of concessional and non-concessional funds, while on domestic public debt, the need for the right mix of short- and long-term funds with the goal of lengthening the maturity profile of debt and developing the domestic debt market. To ensure broad-based participation in its formulation, the International Monetary Fund (IMF) and the World Bank was involve in providing technical support. The Debt Management Division in collaboration with the Bank of Ghana, Controller and Accountant General's Department (CAGD), the Ministry of Finance and Economic Planning's Policy Analysis Division (PAD) and Financial Sector Division (FSD) were involved in its formulation (Ghana MTDS, 2010).

External financing strategies were centred on concessional borrowing (with a not less than 35% grant element), commercial facilities limited to economically viable and self-financing projects, development of innovative products that employ liability sharing between government and private sector (in the form of Public Private Partnership), and a prudent level of creating contingent liabilities and on-lend facilities. On the other hand, domestic financing and debt strategy was centred on establishing benchmarks issues in long-dated instruments and lengthening of the maturity profile of the portfolio for the development of the domestic debt market with issuance that is predictive and transparent. The strategy pursued, among others, included lower borrowing costs, curtailed the growth of domestic debt, lengthening of domestic debt maturity profile to reduce rollover/refinancing risk, and widened the variety of instruments offered to the domestic debt market (Ghana MTDS, 2010).

The second MTDS published in 2011 spanned 2012 to 2014. It was drafted taking into consideration the Medium Term Fiscal Framework (MTFF), in line with the underlying macroeconomic variables in the 2012 budget statement. The 2011 MTDS was prepared to guide financing of the budget deficit (Ghana MTDS, 2011). The strategy focused mainly on ensuring that government-financing needs were met at a reasonable cost subject to a prudent level of risk, keeping public debt at sustainable levels over the medium to long term, and developing a vibrant domestic debt market (AFRODAD, 2013). The 2011 Medium Term Debt Strategy continued the pursuit of external and domestic debt financing strategy highlighted in the 2010 Medium Term Debt Strategy (Ghana MTDS, 2011).
Ghana's 2015 Medium Term Debt Strategy was prepared to guide budget deficit financing needs. As noted by Vlad et al. (2016), decades of deficit bias of fiscal policy could be contained through strong fiscal governance, an important factor for fiscal performance. Hence, the implementation of a sustainable fiscal policy to promote financial stability and economic growth are essential. The strategy spanned 2016 to 2018. It was developed to ensure that government-financing needs were met at the lowest possible cost at a prudent degree of risk while ensuring development of the domestic debt market (Ghana MTDS, 2015). In 2017, Ghana annulled the 2015 MTDS to make way for the approved 2016 MTDS, spanning 2017 to 2019. The strategy is expected to enhance coordination between fiscal and monetary policies to further promote prudent economic management strategy of the government. The 2016 approved debt management strategy provided key strategies to be implemented to reducing cost and mitigating risks associated with central government debt portfolio, and promote the development of the domestic debt market in the three-years' time horizon under the strategy for Ghana. The preparation of the 2016 MTDS took into account, among others, the macroeconomic framework and future government borrowing requirements in meeting government-funding needs on a timely basis at a relatively lower cost and prudent levels of risk. In addition, the promotion and development of an efficient primary and secondary domestic debt market, and meeting any other public debt management goals determined by government in achieving fiscal and debt sustainability, were also taken into consideration (Ghana MTDS, 2016).

The level of public debt influences the implementation of fiscal policy in a country, and the need for its efficient macroeconomic coordination cannot be overemphasize in a country (Vlad *et al.,* 2016). In Ghana, there are two key policy agents, namely, the fiscal authorities and the monetary authorities. The fiscal authorities include the Debt Management Division, Ministry of Finance, and Treasury housed in the Ministry of Finance, while the monetary authorities include

the Bank of Ghana and the Monetary Policy Committees. The monetary and fiscal authorities co-ordinate and agree on the size of the deficit and its financing mode. They co-ordinate operating procedures, clarifying for themselves and the public who has the responsibility for debt management, cash management and liquidity forecasting. Fiscal policies are designed to be consistent with monetary targets such that the main objective of fiscal and monetary policy coordination is to achieve stable and non-inflationary economic growth. The key committees, whose functions have coordination elements, include the Economic Management Team (EMT), Monetary Policy Committee (MPC) and the Treasury Committee. They deliberate on wide issues, among other things, to harmonise the objectives of monetary policy, fiscal policy and debt policy towards achieving macroeconomic stability and economic growth (Englama *et al.,* 2014).
Considering trends in total public debt to GDP ratio for Ghana and the World Bank's Country Policy and Institutions Assessment (CPIA) ranking for debt policy, Ghana's rating averaged 3.7 between 2005 and 2017 (out of 1=low to 6=high), and stood at 3.5 end 2017 (CPIA, World Bank Data Bank, 2018). The ranking is an indication that authorities appreciate effective public debt management policy and are actively engaged in debt management operations. Nonetheless, there is room for further improvement, with public debt to GDP ratio currently elevated above the 60.0% West Africa Monetary Zone (WAMZ) threshold.

3. Private Debt Developments in Ghana

Domestic credit to the private sector by banks in Ghana has evolved in the last five decades. In the 1970s and early 1980s, the financial market in Ghana was subjected to financial repression, having the private sector crowded out of the credit market. The bulk of loanable funds during this period were channeled to the public sector. This period was characterised by high inflation, regulated interest rates, large fiscal deficits financed through domestic credit (Brownbridge, 1995).
In 1983, when Ghana implemented the first phase of ERP (1983-86), there was a significant reduction in public sector borrowing from the domestic banks. For instance, the net flows of domestic borrowing by the public sector fell from 9.6% of GDP in 1982 to 3.3% in 1986 (Brownbridge, 1995). The implementation of the second phase of ERP after 1986 saw the introduction of liberalisation measures in the financial system. The main objective of these measures was to increase efficiency in the financial market, and most importantly, move from direct control to market-based monetary policy instruments, by improving the institutional framework of the financial system (Brownbridge, 1995). The second episode of credit boom in Ghana occurred during this period between 1988 and 1989, with growth from 40.2% to 151.0% respectively, as a result of DMBs' immediate

reaction to the introduction of financial sector liberalisation policies that led to the annulment of direct credit allocation, removal of interest rate ceilings and secondary reserve requirement ratios. As a result, there was increased supply of loanable funds within the banking sector (Loloh *et al.,* 2014).

As discussed earlier, Ghana's financial system, characterised by credit ceilings and sectorial credit allocations, proved to be ineffective for the efficient functioning of the financial system. Sectorial ceilings removed in 1987, operated until 1990 for 20.0% of each bank's loan portfolio to be allocated to agriculture. In 1988, the Financial Sector Adjustment Programme (FINSAP) was launched in order to strengthen the finances and improve the management of banks, many of which were suffering from severe financial distress (Brownbridge, 1995). Monetary policy was deregulated and a more market-based system of monetary management was institutionalised and indirect money control measures were adopted under this programme (Kayelle, 2017). The reform, carried out in phases, had phase 1, FINSAP-1, spanned 1988-1991, focused on the review of legal and regulatory environment and to amend Banking Acts and Laws. FINSAP-2, which covered the period 1992-1995, was aimed at restructuring the banking sector and making the banks viable and efficient; FINSAP-3, that started in 1995, is an ongoing process to restructure the financial sector (Sowa, 2002). These reforms paved the way for the entry of foreign banks, expansion in credit, and growth in bank branches. In 1999 Ghana once again recorded a double-digit ratio (12.4%) for domestic credit to private sector by banks as a percentage of GDP since 1972 (at 10.1%), and remained double-digit until 2017 (World Development Indicator, World Bank Data Bank, 2018).

In 2000, Ghana experienced a rapid decline in banks' credit to the private sector as a result of loose monetary and fiscal conditions that were characterised by macroeconomic instability (Bank of Ghana, 2018b). The 16.6% decline in 2000 from 50.0% in 1999 was short-lived with a significant nominal increase in 2001 by 31.1%. Bank's credit to the private sector nominal growth between 2002 and 2017 averaged 32.5%, with credit conditions pointed mostly to easing of credit to the private sector, and credit growth mainly funded by increased mobilisation of domestic deposits by the banking system. Nominal growth in domestic credit to the private sector by banks stood at 12.8% end 2017 (Bank of Ghana, 2018b). The share of banks' credit to the private sector compared with the public sector (comprising central government, public institutions and public enterprises) had been on the increase since the implementation of the FINSAP that began in 1989, signalling a crowding-in of the private sector in Ghana (Bank of Ghana, 2018b).

3.1. Domestic Credit to Private Sector Management in Ghana

The foundation of the BOG monetary policy strategy was the quantity theory of money. The framework targets changes in reserve money (the operating target) and broad money (the intermediate target) to influence target rate of change in inflation (the ultimate objective) (Kayelle, 2017). The Bank of Ghana is responsible for money and credit control in Ghana. The Bank of Ghana prepares monetary and credit control measures that guide the operations of financial institutions. Credit control as a monetary tool was first instituted in 1964, to direct credit to the industrial and agricultural sectors of the economy (Sowa, 1991).

Monetary policy is confronted with the problem of managing credit expansion in Ghana, and its management can be classified under two main distinct phases, namely, the direct monetary control and the indirect monetary control regimes. These regimes have effects on the supply and demand of DMBs' credit to the private sector in Ghana. Prior to 1983, the direct control of monetary management involved the use of direct intervention instruments, among which was direct credit control, to influence monetary policy. This was the imposition of ceilings on individual commercial banks' lending consistent with national macroeconomic targets (Sowa, 1991). Within this period, commercial banks loaned out only 20.0% to 30.0% of their funds to the private sector. The BOG also imposed high reserve requirements and regulated interest rates through the imposition of floors and ceilings for both deposit and lending rates. Reserve requirements were used by the BOG mainly to supplement credit controls during this period (Fosu, 2015). This approach introduced inefficiencies in various sectors of the economy and had to be abandoned in 1983 (Sowa, 1991).

The Financial Sector Adjustment Programme was introduced between 1987 and 1992 under the ERP. During this period, monetary policy was deregulated, and monetary management was anchored on a market-based system. This made way for full implementation of the indirect money control measures in 1992 that gradually phased out direct credit ceilings and sectorial credit guidelines (Kayelle, 2017). The BOG from 1992 to 2017 used the indirect control monetary policy management system, using indirect and market-based instruments in the conduct of its monetary policy depending largely on the use of open market operations (Sowa, 1991). The indirect market-based system of monetary control involved the weekly auctioning of Treasury Bills (TBs) and other government and Bank of Ghana securities for fiscal and monetary policy purposes. The DMBs have since then allocated loans according to a market-based approach anchored on the use of market instruments in monetary management, eliminating distortions and inefficiencies in the financial system caused by prolonged use of direct controls in credit management (Brownbridge and Gockel, 1996).

World Bank Country Policy and Institutions Assessment (CPIA) ranking for Ghana's financial sector and macroeconomic management averaged 3.5 and 3.4 respectively, between 2005 and 2017 (out of 1 = low to 6 = high). Financial sector ranking stood at 3.0, while macroeconomic management ranking stood at 3.5 end 2017 (CPIA, World Bank Data Bank, 2018). These rankings show average performance by the authorities, however, with room for further improvement.

4. Trends in Public and Private Debt Stock in Ghana (1985-2017)

4.1. Public Debt

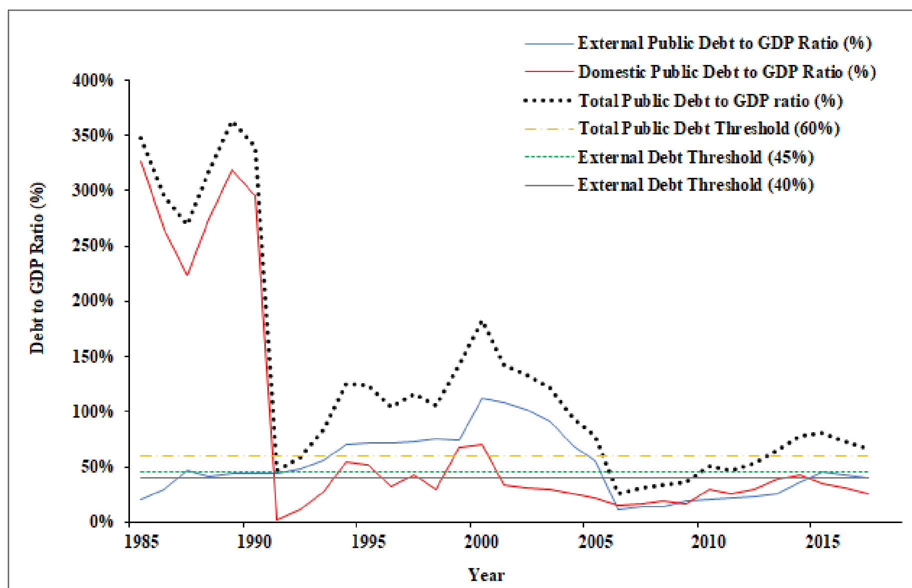

Figure 1 Trends in Total Public, External and Domestic Debt to GDP Ratio in Ghana (1985-2017)

Source: World Economic Outlook Database, IMF and WAIFEM Annual Reports - Author's compilation using Excel.

Figure 1 show trends in total public debt, external debt and domestic debt as a percentage of GDP from 1985 to 2017 in Ghana. Nominal total public debt stock increased from GH¢0.12 billion in 1985 to a maximum of GH¢122.66 billion in 2017. As a percentage of GDP, the ratio represents a decrease from 347.8% in 1985 to 67.0% in 2017, with a minimum of 26.2% in 2006 and a maximum of 363.4% in 1989. The ratio between 1985 and 2004 before external public debt

relief averaged 179.8% compared to 56.0% between 2007 and 2017 after external public debt relief (Bank of Ghana, 2018c and World Economic Outlook Database, 2018).

As indicated in Figure 1, Ghana's nominal public debt to GDP ratio was unsustainable for the period 1985 to 1990, 1993 to 2005, and 2013 to 2017 with ratios elevated above West African Monetary Zone (WAMZ)'s internationally recognised threshold of 60.0% (World Economic Outlook Database, 2018). Ghana during these periods was unable to meet its debt service obligations in full without recourse to debt relief, rescheduling or accumulation of arrears (Shakira and Prizzon, 2015). On the other hand, the country maintained ratios below the threshold for the period 1991, 1992, and 2006 to 2012 (World Economic Outlook Database, 2018). The maintenance of sustainable ratios between 2004 and 2012 was as a result of significant reduction in external debt stock from external debt relief in 2004 and 2006. After the debt deal, total nominal public debt to GDP ratio fell significantly from 121.4% in 2003 to 94.1% in 2004, and 26.2% in 2006 (World Economic Outlook Database, 2018 and WAIFEM, 2007). It is, however, important to note that with the ratio at 67.0% for 2017, the prevailing macroeconomic environment may make this ratio susceptible to unfavourable changes in the near future. Hence, maintaining ratios below the 60.0% WAMZ's threshold should be centred on credible and sustained fiscal consolidation, supported by an appropriate debt management strategy.

Figure 2 show trends in the composition of total public debt stock in Ghana from 1985 to 2017. The composition of Ghana's total public debt stock in 2017 was made up of 39.1% of domestic public debt stock and 60.9% of external public debt stock, compared to 95.4% of domestic public debt stock and 4.6% of external public debt stock in 1980. The proportional share of external and domestic debt alternated since 1985. From 1985 to 1990, it was largely dominated by domestic public debt stock and from 1991 to 2005 largely by external public debt stock. Starting in 2006, domestic public debt stock dominated total public debt stock until 2014 before changing back to external public debt stock in 2015, 2016 and 2017 (Bank of Ghana, 2018c and World Economic Outlook Database, 2018).

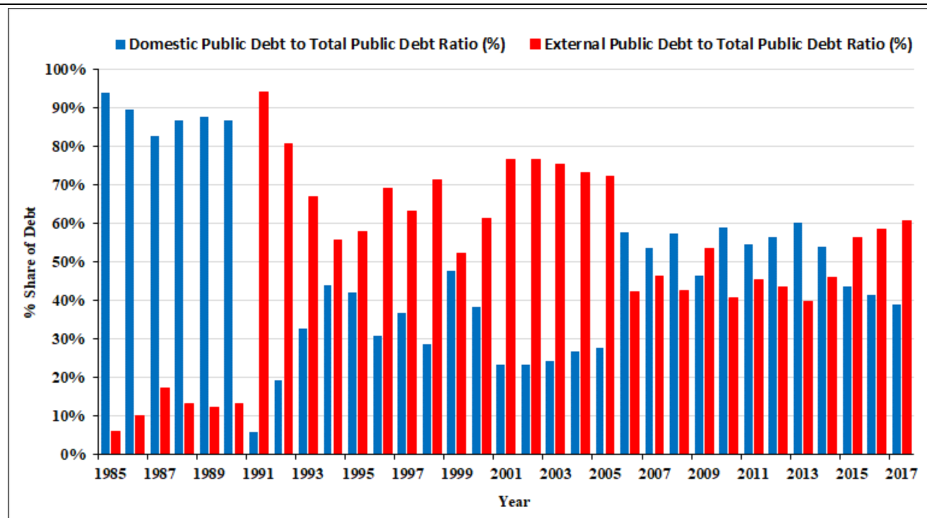

Figure 2 Trends in the Composition of Total Public Debt Stock in Ghana (1985-2017)
Source: World Economic Outlook Database, and WAIFEM Annual Reports - Author's compilation using Excel

Prior to debt relief in 2004, total public debt was characterised by huge external borrowing by government in meeting its financing needs. This resulted in total public debt stock largely dominated by external public debt stock (Fosu, 2001). Total public debt stock since debt relief had been on the increase with contribution from both domestic and external debt stock (Bank of Ghana, 2018c).

The growth in the 1980s and 1990s of Ghana's public debt was as a result of mainly new foreign loans for the finance of Economic Recovery Programme projects, continuous fiscal deficit and the corresponding increase in the issuance of domestic debt instruments for the purposes of domestic debt management policies (ARODAD, 2013). In the 1990s, Ghana's total public debt increased substantially by 7.6% and 30.0% per annum for external and domestic debts respectively, with external debt constituting about 85.0% of total public debt (Fosu, 2001). Domestic debt at lower levels in the 1980s began to rise again in the 1990s (Sowa, 2000).

In Ghana, the mid- 2000s witnessed a huge decrease in public debt stock due to external public debt relief under the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives. External public debt stock reduced significantly by -12.5% in 2004 and further by -62.6% in 2006, with a corresponding decline in total public debt stock by -6.4% in 2004 and -35.5% in 2006. Subsequently, in 2007, 57.2% nominal growth was recorded in external public debt stock as a result of the issuance of Eurobond to support the budget, and thereafter, the additional

disbursement of loans (Ghana MTDS, 2016; West African Institute for Financial and Economic Management (WAIFEM), 2008). The changes in external public debt stock component of total public debt stock was also attributed to transactions (disbursements less amortisation), and valuation changes due to changes in cross rates among holding currencies and the nascent crude oil production (Fosu, 2001).
The contribution of changes in securitised domestic public debt component of total public debt was largely as a result of government financing needs of high fiscal deficit (WAIFEM, 2007). For instance, between 2000 and 2005 domestic public debt stock was well below GH¢ 2,000 million, but witnessed a sharp increase from GH¢ 1,823.95 million in 2005 to GH¢ 2,893.65 million in 2006. The 58.7% stock increase was as a result of increased government floatation of short-term, medium-term and long-term debt instruments (WAIFEM, 2007). In addition, the growth in 2010, 2011 and 2012 of 35.7%, 43.0% and 56.5% respectively was also as a result of increased short-term, medium-term and long-term debt instruments in line with domestic debt management strategy of restructuring the domestic public debt stock from short-term into medium-term securities (WAIFEM, 2011, 2012, 2013). The growth in domestic debt stock between 2013 and 2017 was as a result of continuous domestic borrowings by government to fund fiscal deficits and to refinance matured securities (Ghana MTDS, 2016). Overall, for the study period, growth in domestic debt stock was largely through the implementation of domestic public debt management strategies and fiscal excesses.

4.2. Deposit Money Banks' Credit to the Private Sector

Figure 3 show trends in DMBs' credit to the private sector as a percentage of GDP from 1985 to 2017 in Ghana. DMBs' credit to the private sector to GDP ratio increased from 3.1% in 1985 to 18.4% of GDP in 2017, with a minimum of 3.1% in 1985 and 1990, and a maximum of 22.6% in 2015. The ratio between 1985 and 1990 averaged 4.0% under the direct control regime of monetary policy compare to 12.4% under the indirect control regime of monetary policy between 1991 and 2017 (World Economic Outlook Database, 2018).

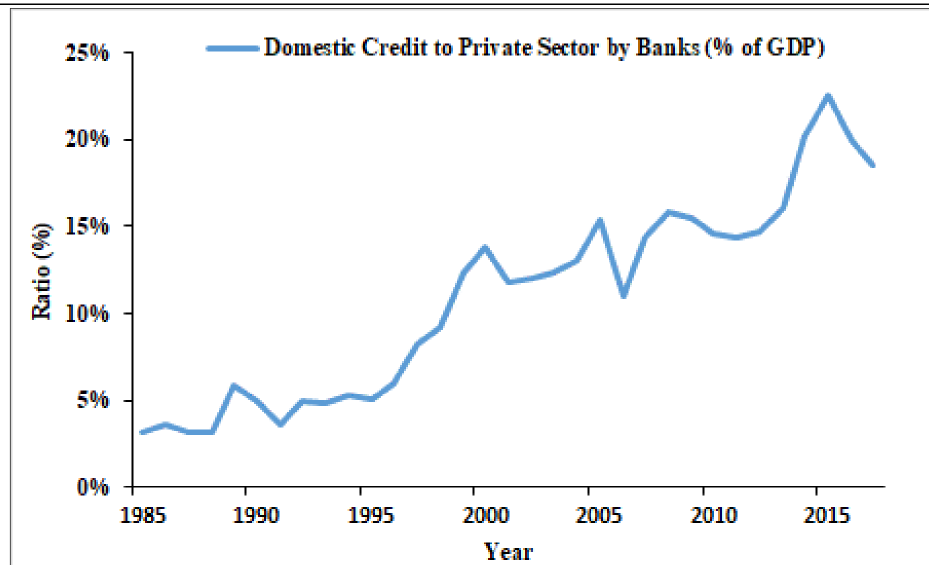

Figure 3 Trends in Domestic Credit to Private Sector by Banks (Percentage of GDP) (1985-2017)

Source: World Economic Outlook Database, World Bank - Author's compilation using Excel

As illustrated in Figure 3, beginning in the mid-1990s, domestic credit to the private sector by banks as a percentage of GDP began to increase, reversing the steady downward trend. This ratio had, on average, since then maintained an upward trend for the study period. Usually, a larger ratio is preferred for this. As noted with the upward trend in Figure 3, it indicates development in the financial system and increased participation of the private sector system in economic growth. In advanced economies, the ratio may exceed 150.0%, while in developing economies it could be less than 12.0% (Levine and Zervos, 1998; Dembiermont *et al*., 2013). In Ghana, domestic credit to private sector by banks as a percentage of GDP averaged 10.9% between 1985 and 2017, with the ratio at 18.5% end 2017 (Bank of Ghana, 2018b).

Figure 4 shows trends in nominal DMBs' credit to the private sector in Ghana for the period 1985 to 2017 using annual data. The year-on-year nominal growth hovered between a minimum of -6.0% and a maximum of 151.0% between 1985 and 2017 (Africa Development Indicators, 1992, 2001). Evidence from 1985 to 1989 shows that nominal growth rate averaged 74.1%, whereas in the 1990s it averaged 42.4%, and in the 2000s it averaged 31.6%. As a percentage of GDP, DMBs credit to the private sector averaged 3.8% from 1985 and 1989, compared to

6.4% in the 1990s and 15.4% in the 2000s (Africa Development Indicators, 1992, 2001).

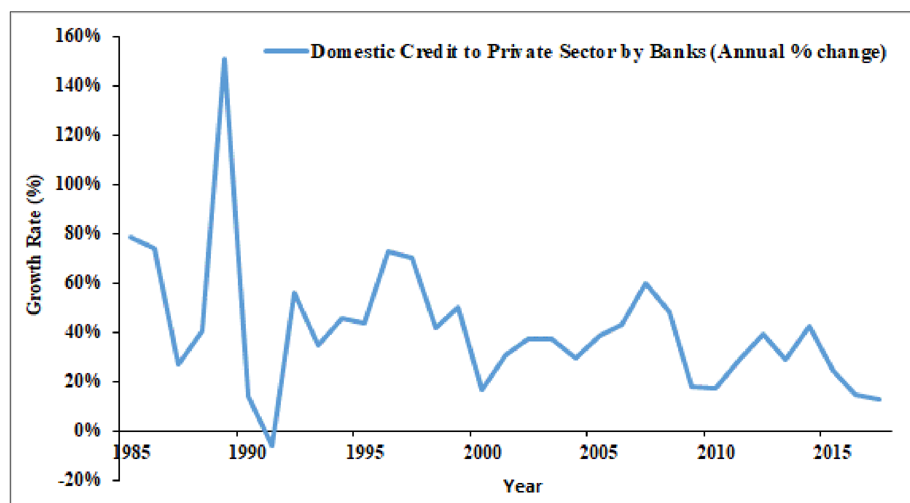

Figure 4 Trends in DMBs' Credit to the Private Sector in Ghana (1985-2017)
Source: World Bank, Africa Development Indicators - Author's compilation using Excel

From 1985 and 1995 nominal growth in DMBs' credit to the private sector averaged 50.9%, reflecting the immediate effects of the implementation of the ERP and FINSAP in Ghana (Sowa, 2001). The growth from 2000 to 2017, which averaged 31.6%, reflected consistent improvement in domestic credit to the private sector by banks in line with macroeconomic policy objective of enhancing private sector competitiveness (BOG, 2018b).

5. Policy Challenges Affecting Public and Private Debt Management in Ghana
Public debt management in Ghana over the past decades recorded successes, but challenges still exist in the effective management. The major limitations identified in this study include:

- Foreign Exchange. Volatility in generating sufficient foreign exchange earnings from exports and the nascent crude oil produce to meet government foreign exchange needs had affected public debt management in Ghana. Actual government receipts were below target for most of the study period, and as a result, government had to borrow to meet its financing needs (Ghana MTDS, 2011);

- Macroeconomic policies. Debt management had suffered setbacks in Ghana due to inconsistent macroeconomic policies that have encouraged fiscal irresponsibility in spite of dwindling tax revenue and monetary policy misalignment. There is need for fiscal discipline that will ensure fiscal deficit is sufficient to put debt on a declining path (Ghana MTDS, 2016);
- Cost of borrowing. Depleted reserves as a result of trade and current account deficits over time had made foreign debt become more expensive. New borrowing need to be on concessional terms in order to minimise the cost of borrowings and to enable government replace more expensive debts with less expensive ones. In addition, the lack of effective coordination of monetary, fiscal and debt management policies for reduced cost of borrowings is also a problem for effective debt management in Ghana (Ghana MTDS, 2016);
- Domestic debt market. The need to further develop and deepen the domestic debt market for long-dated securities to absorb increasing government-financing needs as well as to provide access for the private sector to long-term funds needed to develop the real sector of the economy has been a contributing factor to public debt management in Ghana (Ghana MTDS, 2010).

For the period under review, despite growth in domestic credit to private sector by banks, challenges still exist in its effective management in Ghana. The major limitations identified in this study include:

- The fall in financial depth combined with crowding out by government borrowing have reduced the aggregate volume of funds DMBs had to lend to all non-government borrowers in Ghana (Brownbridge et al., 1996). The level of banks' investment in government debt instruments is high. Banks preferred to hold their assets in the form of government bonds, with relatively high yields and low risk instead of risk prone lending to the private sector, particularly to the smaller enterprise (Epstein et al., 2006);
- The high reserve ratios imposed by the Bank of Ghana in the 1970s and early 1980s were a major constraint on the volume of domestic credit by the DMBs to the private sector system in the economy (Brownbridge et al., 1996). More than 50.0% of bank credit goes to government through the high secondary reserve requirements with limited credit available to satisfy private sector demands (Sowa et al., 1999)
- Dominance of short-term credit. There is inadequate credit for medium- and long-term investments, most importantly because of the term structure of deposit, limiting banks' ability to make long-term loans to the private sector. The lack of long-term deposit instruments severely limits the maturity transformation capabilities of the banking system and as a result, deposit

money banks are unable to provide the needed long-term credit (Epstein et al., 2006);

- Containing inflation and demand pressure in the economy has remained a major challenge to monetary policy and macroeconomic stability, thereby affecting the efficiency of domestic credit allocation by DMBs to the private sector (Baoko et al., 2017). An autonomous central bank has significant benefits in macroeconomic performance as it helps countries achieve lower average inflation and boost fiscal discipline. An independent central bank with a high degree of freedom in choosing its instruments, objectives, techniques and tactics will be effective in monetary policy implementation (Dumiter et al., 2015);
- Other challenges identified for the study period include the poor state of infrastructure as well as banks' unwillingness to extend credit to some sectors within the private sector system in Ghana (Sowa, 1991). Small enterprises are probably perceived to be more risky than established large-scale firms are, and will therefore have a more difficult time securing credit (Epstein et al., 2006).

6. Conclusion

In this paper, evidence of public and private debt management in Ghana had been review with focus on their dynamics for the past 32 years, while appraising their relative successes and failures. The findings from the exploratory review conducted reveal that fundamental changes in both public and private debt management in the last decades was as a result of expansionary fiscal deficit, fiscal dominance, volatility in foreign exchange earnings and the adoption of indirect monetary control approach. Various reforms had been undertaken since 1980s to improve debt management in Ghana, including the Economic Recovery Programme, Financial Sector Adjustment Programme, and the establishment of the Debt Management Unit at the Ministry of Finance to manage government's debt portfolio. Public and private debt management in Ghana has largely responded positively to these reforms.

In spite of recorded growth in the management of public and private debt, expansionary fiscal deficit, and fiscal dominance remain a major challenge for debt management in Ghana due to huge borrowings from both domestic and external sources. In view of this, the study recommends the pursuit of fiscal operations by government that is sufficient to put public debt on a declining path, with sustainable fiscal policies to promote financial stability and economic growth. In addition, effective coordination of fiscal, monetary and debt management policies need to be strengthened together with the autonomy of the Bank of Ghana in

choosing its instruments, objectives, techniques and tactics in the implementation of its monetary policy.

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