RESEARCH BY: SALMAN PARTNERS AND FINANCIAL CONSULT LTD

GHANA'S RISING DEBT: "FROM THEORETICAL PERSPECTIVE". POLICY RECOMMENDATIONS.

ABSTRACT

This paper attempts to analyze theoretical perspective behind Ghana's rising debt on the past decade. This enquiry is important from the standpoint of the reasons that have been discovered to be the core of the rising Ghana's debt. The research is a qualitative study which is based on secondary data gleaned from Ministry of Finance and Economic Planning Annual Debt Reports, journal articles and books on the subject matter from the virtual and physical libraries. Governments tend to borrow financial resources from domestic as well as external sector when its tax revenues are not sufficient to meet the required financial needs. In the Ghanaian context, there has been a gradual increasing trend in the accumulation of public debt over the past decade, as a result of annual financing gap of US$ 2.5 billion- US$3 billion that is needed to borrow from both domestic and international markets to finance the gap. Over

the years Ghanaian debt has been rising again because of range of factors, from after-effects of the 2008-2009 global financial crisis and commodity pricing slowdown to low domestic savings rates and infrastructure investment promises made by democratically elected governments. Due to narrow tax base the economy of Ghana has been facing poor growth of revenue for a number of decades, which in turn forces the government to rely on continuous borrowing both from internal and external sources to finance the budgetary deficit. Along with its public sector corporations, owing to relatively weak financial position, also borrow from different sources. The study shows that due to persistent borrowing, economy is burdened with public debt. Consequently, the problem of twin deficits emerged and to finance the developmental activities government has to rely on public external and domestic debt. The study shows that there is a positive effect of public debt relate to the fact that in resource-starved economies debt financing if done properly leads to higher growth and adds to their capacity to service and repay public debt. However, this study also indicates that negative effects work through two main channels-i.e., "Debt Overhang" and "Crowding Out" effects. The paper concludes that public debt has a negative influence on the GDP and investment confirming the existence of Debt overhang effect and Crowding out effect on the Ghanaian economy. The paper concludes that apart from the debt overhang and crowding effects, the biggest threat to Ghana's economy is that of sharp decline in global financial conditions, which could cause higher debt servicing and refinancing risks, as well as putting stress on vulnerable sovereign bond issuances and those with unhedged foreign currency exposures. More efforts are therefore critically needed to the country's public debt stocks to free local resources to develop the economy.

Keywords: Ghana; Public Debt; Debt Overhang; Crowding Out; Budget Deficit.

1) INTRODUCTION

Heavy indebtedness of the developing countries is one of the major challenges at the beginning of 21st century. Needless to point out that government can finance its budget and development efforts by borrowing or taxing the output. However, taxes tend to distort the structure of relative prices, borrowing, if pushed beyond the carrying capacity of an economy, creates problems of intergenerational equity, and it can cause a transfer of resources that tends to be undermining growth. Yet borrowing has to be done to finance the public expenditure in order to increase social welfare and promote economic growth (Akram, 2011). Public debt can be classified as sum of external debt and domestic debt. As far as the relationship between external debt and economic growth is concerned, a reasonable level of borrowing is likely to enhance economic growth, through capital accumulation and productivity growth (Chowdhury (2001)). Because at early stages of development, countries have small stocks of capital and they have limited investment opportunities. External borrowing for productive investment creates macroeconomic stability (Burnside (2000)). It is also been seen as capital inflow having positive effect on domestic savings, investment and economic growth; it implies that foreign savings complement domestic savings to cater for investment demand [Eaton (1993)]. However, high level of accumulated debt has an adverse effect on rate of investment and economic growth. Most broad rationalization of the adverse effect of debt is “debt overhang” effect. If there is likelihood that in future, debt will be larger than the country’s repayment ability then anticipated debt service costs will depress the domestic and foreign investment [Krugman (1988); Sachs (1990); Karagol (2002)]. The other channel through which debt obligations affect economic growth is known as “crowding out” effect. If greater portion of foreign capital is used to service external debt, very little remains available for investment and growth. Debt servicing cost of public debt can crowd out public investment expenditure, by reducing total investment directly and complementary private expenditures indirectly [Karagol (2002); Diaz-Alejandro (1981)]. However, various authors [Pattillo, et al. (2002, 2004)] are unable to find evidence of a significant crowding out effect, while others [i.e., Chowdhury (2004); Clements (2003); Elbadawi, et al. (1999)] finds that both debt burden and debt service obligations have reduced the investment and economic performance.

In the past two decades, public debt level has been arising in the Sub-Saharan African Economic report (2017) on the public debt showed that Africa's stock of public external debt averaged about US$ 309 billion over 2000-2006 and then rose further to US$ 707 billion in 2017, with 15.5% increase from 2016 alone. The Economic Report on Africa (2018) indicated that Eritrea recorded the highest 131% of GDP; Cape Verde 129% of GDP; Gambia 122% of GDP; Congo 118% of GDP; Egypt 103% of GDP; Mozambique 112% of GDP; Mauritania 98.7% of GDP; Sao Tome 94% of GDP; Togo 77.3% of GDP; Zimbabwe 69.7% of GDP; Sudan 66.5% of GDP and Ghana 57.9% of rebased GDP in 2018. At the same time, ratios of public debt to GDP had been rising steadily thus giving rise to worries about sovereign default and fiscal vulnerabilities. According to the report, about 40% of low-income countries in Africa faced debt servicing challenges, and an increasing number of countries are at high risk of debt distress or in debt distress. Five countries are in debt distress today (Chad; Mozambique South Sudan; Zimbabwe and Sudan). Rising public debt levels are the result of swelling fiscal deficits, leading to the accumulation of domestic and external debts. Public debt stock levels of the African countries such as Chad, Mozambique, Ghana and Kenya that have discovered oil and gas over the past two decades. The regional ratio of general government debts to the GDP has risen from 32.2% at the end of 2013 to an estimated 45% by the end of 2017. According to Aemro-Selassie (2018) Sub-Saharan Africa has been confronting a pronounced rise in public debt. At the end of 2017, average public debt in the region was 57% of its GDP, an increase of 20% points in just five years (Abebe-Aemro Selassie, 2018). Compared to the developed economies, these ratios might not appear worrying but with the developing countries such as Ghana is quite worrying phenomenon, because interest rates on the public debt in Sub-Saharan Africa are much higher and public revenue collection capacity is much smaller. These countries therefore have much difficulties coping with higher debt levels in terms of principal and interest payments. Additionally, there are a number of aspects concerning the debt build up in recent years that are particularly worrying. First of all, in the early 1990s public debt accumulation led to the Highly Indebted Poor Countries Initiative (HIPC), Multilateral Debt Relief Initiative (MDRI) and a number of bilateral debt programs. Secondly, government borrowing in Sub Saharan Africa has become increasingly non-concessional (at commercial term). Thirdly, unprecedented borrowing in foreign currencies exposed the countries to exchange rate risks. Fourthly, while foreign borrowing has increased strongly, the export revenues have grown much slower, leading to high external debt to export ratios and thus raising questions concerning the abilities and capabilities of countries to pay their domestic and external debts. Ghana is no exception to other developing countries where rising public debt are as result of swelling fiscal deficits, low domestic revenue mobilization, unfavorable terms of trade, unprecedented foreign currency borrowing exposing the country to exchange rate risk, and poor debt management strategies over the past two decades. High debt also creates uncertainty, deterring investment and innovation, and has a negative impact on economic growth. A poorly managed debt crisis would not only undermine progress towards the SDGs, but it could also reverse the development progress made over the past decade. The recent volatility of commodity prices, as well as exchange and interest rates, had highlighted the need for more responsible borrowing and lending in Ghana.

After the HIPC and MDRI debt reliefs in 2006, Ghana has stepped up its borrowing to finance largely infrastructural and social projects. This has caused debt level to rise up again to its unprecedented levels over the past decade. Warnings have been sounded by IMF, World Bank, other development partners and local institutions such as Institute of Fiscal Studies, Institute of Economic Affairs and other distinguished academia such as Professor Peter Quartey, Professor Bopkin, Professor Kusi and Dr Kwakye, but politicians have refused to pay heed to their free advises and from the pace of accumulation of debt, Ghana will return to the debt unsustainable levels sooner or later. There is even a school of thought that Ghana could return to pre- Highly Indebtedness Poor Countries (HIPC) status yet again. The rebasing of Ghana's GDPs in the 2010 and 2018 have given false hope to politicians to continue to borrow from both domestic and foreign markets. Rebasing the GDP does not generate export revenues as well as increasing domestic revenue to help to sustain higher capacity of repaying the country's debt. In past decade the public debt stock has seen a dramatic increase from GHC 9.51 billion in 2008 to GHC 208 billion as at the end of September, 2019 or 60.3% of the country's gross domestic product (GDP) by a whooping of GHC 198.49 billion representing 2089%, an average increase in public debt stock over the past eleven years stock of debt of 189%. Most of these borrowings over the past decade have gone into consumption and frivolous projects than into projects that had the capability of generating revenue to pay back the loans. At the end of September,2019, the public debt stock stood at GHC 208.6 billion or US$39.2 billion. The external debt was GHC 107.2 billion (US$ 20.1 billion) while domestic debt stood at GHC 101.4 billion (US$ 19.1 billion)

The latest IMF country report (2019) opined that Ghana is close to high risk debt distressed country implying that the country may not have the ability to honor its international obligation. The Government 2020 budget set outs aside over GHC 19 billion to pay interest alone and it is the one of the biggest items on the government expenditure and more importantly bigger the capital expenditure in the 2020 budget.

2) THEORETICAL LITERATURE REVIEW OF PUBLIC DEBT

Most emerging and developing economies in an attempt to accelerate economic development have resorted to external and domestic borrowing instead of improving and enhancing their revenue generation. Borrowing remains one of the few options to support both global goals and national strategies, given low growth tax revenues or only limited space for their further expansion (Marcus et al, 2018). There are two theories that seem to explain the negative effects of excessive borrowing from both external and domestic are the debt hang and crowding out theories. Public debt has a twofold effect on the economy through private investment; first, its crowds-out private investment because by its very nature high public debt ratio represents a deadweight burden on the economy for which private investors would be skeptical of paying higher taxes in the future in order to service the debt. The resources used to repay debt as well represent an opportunity cost because they would be otherwise used to provide social services like schools, health and security. This is a negative effect of public debt on private investment. Second, debt overhang occurs if the external debt in a country exceeds a country's ability to repay given some future probability. The higher the current debt service burdens the higher expected tax on private investors that implies lower future private investment because the resources that would be otherwise available to investors are used for servicing debt. Disincentive to investment further hampers economic growth which virtually makes poor countries to be caught in the vicious circle of poverty. An accurate account and proper analysis of the debt crisis in developing countries in Africa and Ghana in particular cannot be possible without the examinations of theories underpinning the problem. Debt overhang occurs when an excessive debt stock introduces negative externalities in the economy beyond the transfer of resources, first on investment and adjustment and then on economic growth. This is because high (current and future) debt transfers lead to anticipation by domestic and foreign investors of future higher taxes and increased uncertainty, both of which create a disincentive effect on the present investment or adjustment decisions of an indebted country Kwakye, 2012). Debt overhang is also likely to crowd out investment by both domestic and foreign investors. This is because public spending or investments will be reduced because governments will have to service their debts. The overall effect is a reduction in the future net after-tax return on investments.

Scholars and writers have emerged with different theories and explanations concerning the debt crisis in developing countries. The protracted debt in Africa countries has stimulated research projects that endeavor to unravel the causes and consequences and explain the complexities surrounding the debt crisis. While some studies argue the debt overhang theory (Krugman, 1988; Sachs, 1989; Chowdhury, 2001) is best for understanding the effect on the economy while some maintain that crowding out effect theory on the economy. For the purpose of this paper the public debt theory, debt overhang theory and crowding out effect theory will be considered.

(2.i.) The Public Debt Theory

Public borrowing has been a matter of serious concern among economists since 19th century, (Churchman 2001). The growth of public debt at a glance is a deficit issue. It emanates in the desire of a government to spend more than it can collect revenues by its will or due to circumstances like wars, floods and droughts. However, long run debt also fastens the growth of public debt through debt service. Adam Smith and David Ricardo can be singled out as two earlier critics of public borrowing. They maintained that public debt harmed the national capital stock because the true level of public expenditure is not revealed instead it encourages government expenditure that is largely harmful to the state's well- being. Ricardo, in Ricardian Equivalence, further argued that both taxation and debt were a form of transfer payment and a burden to the current generation and the future generation respectively. Opponents of Ricardo in 1820s and afterward could not agree with him. For instance, Keynesians based on "the General Theory of Employment, Interest and Money" in 1936 believed that the absolute size of the debt does not constitute any burden upon society as a whole. However, post Keynesian theorists in 1950s and 1960s like J.M Buchanan and R.A. Musgrave reiterated that the real cost of the government expenditure that is financed through debt implies postponed taxes to be paid in the future because taxes are compulsory and involuntary hence burden to future generation. After Barro's re-statement of Ricardian Equivalence in 1970s, economists recognized that part of public debt is productive in the form of public investment which in turn influences private investment but part of it could be wasteful as claimed by classical economists, (Barro 1979). Since private investment nourishes in peaceful environment and well-established infrastructures where the government spends (public investments) possibly through public debt, we expect correlation between public debt and private investment. The debt -growth nexus have been explained in this paper through two main channels: (i) debt overhang effect (the stock of accumulated debt) and (ii) crowding-out effect (debt servicing). The debt overhang effect argues that if there is some likelihood that future debt will be larger than the country's repayment ability, then expected debt servicing will be an increasing function of the country's output (growth) level. The returns from investment in the domestic economy therefor will face a high marginal tax by external creditors, and new domestic and foreign investment will be discouraged (Krugman, 1988, Sachs, 1989). The crowding out effect is the other theory with implication for a negative impact of external debt on investment and growth. Cohen (1993) rejects the debt overhang effect arguing, that the important debt problem is the crowding out of investment caused by debt servicing. In crowding out effect, reduction in the current debt service payments should lead to an increase in current investment or any given level of future indebtedness. A high debt burden generally means that a significant portion of government fiscal revenue (budget resources) or export revenues must be devoted to debt servicing.

Furthermore, public debt would have a twofold effect on the economy through private investment; first, its crowds-out private investment because by its very nature high public debt ratio represents a deadweight burden on the economy for which private investors would be skeptical of paying higher taxes in the future in order to service the debt. The resources used to repay debt as well represent an opportunity cost because they would be otherwise used to provide social services like schools, health and security. This is a negative effect of public debt on private investment. Second, public debt may crowd-in private investment (positive effect), because borrowed funds are meant for financing deficit and hence, they are necessarily directed to public investment. When the government invests the borrowed funds in strategic infrastructures like railways, roads, electricity, airports and water supply, the likelihood that private investment would be encouraged is high.

(2.ii.) The Debt Overhang Theory

Krugman (1988) coins the term of debt overhang as a situation in which country's expected repayment ability on external debt falls below the contractual value of debt. The theory of debt overhang was first postulated by Stewart C. Myers in 1977 with his theory of company valuation in corporate finance and the effects of debt-financing. His paper examines why companies do not finance their activities with maximum debt even though there clearly exists a tax-advantage due to the deductibility of interest rates. The reason, he explains, for this is that high amounts of debt, or debt itself, distorts the possibilities for companies to make optimal future investment decisions. The debt overhang theory holds that the composition of public spending is altered and also the private investment is discouraged by the service and stock of the large public debt. A country's budget interest is increased by the interest payments to finance the external borrowing. The effect is that the reduction of the public savings increases the country's budget deficit. This can only be increased by an increase of the private savings that in return will offset it. Interest rates may be either is driven up or crowd out all the credit that could be available for private investment and economic growth will be eventually be depressed. All the public resources may be squeezed that is available for human capital and investment (Clement –et –al, 2005). The large public debt might have some growth effects that are non-linear either through productivity growth or accumulation of capital as suggested by the theory. The debt overhang theory further suggests that country's ability to pay its debts might be lower the resources available to service both the principal and interest due. Further foreign and domestic investment may also discourage by the amount of borrowing by a country. Investors may not be willing to be charged higher taxes by creditors with the increase in their production to service the debt that they might be having. The potential investors may not be willing to incur higher investment costs with anticipation of increased output in the future (Krugman, 1988). The theory argues that increased borrowing by the country could cause debt overhang effect if the debts are not put into higher and productive ventures, otherwise the increased debt will eventually cause the government's inability to repay the principal debts and the accruing interests. This theory shows a negative relationship between large public debt and economic growth of a country. The literature field of economic growth viz., external borrowing is awash with the perceived negative relationship between foreign debt and investment which consequently results into lower capital formation. Krugman (1988) defines this negative relationship as "debt overhang" where the potentials of repayment of outstanding facilities fall lower than the signed value. The study gave a straight forward definition of the problem of debt overhang as being the anticipated current value of any potential resource allocation that is not up to its outstanding loan. Several scholars have supported the theoretical case for debt overhang. Some of the studies include Krugman (1988) and Sachs (1989). Others like Greene and Villanueva (1991), Elbadawi et al. (1997) and Chowdhury (2001) reaffirmed this by coming up with ample proof that backs the debt overhang phenomenon. In those economies with heavy indebtedness "debt overhang" is considered a leading cause of distortion and slowing down of economic growth (Sachs, 1989; Bulow and Rogoff, 1990). Economic growth slows down because these countries lose their pull-on private investors. Additionally, servicing of debts exhausts up so much of the indebted country's revenue to the extent that the potential of returning to growth paths is abridged (Levy-Livermore and Chowdhury, 1998). They suggested that even if structural adjustment programs are put in place by governments of these countries, adverse effects can still be felt on development of general economic performance. It should however be noted that debt overhang does not occur only when a country accumulates too much debt, it can also arise when country's circumstances change, making it difficult to manage and discharge its stocks of debts. Such conditions may emerge because of adverse economic shocks or poor economic policies (Arslanalp and Henry, 2004); and in these unfavorable circumstances, creditors loan portfolios will face heavier risks. The outcome would be panic among creditors who rush to cash their claims, and the withdrawal of interest from potential new credits. In developing economies with heavy indebtedness, external debt overhang is considered a leading cause of distortion and slowness of economic growth (Sachs, 1989; Bulow & Rogoff,1999). Economic growth slows down because those countries lose their pull-on private investors while servicing of debt exhausts up so much of the heavily indebted country's revenue to extent that the potential of returning to growth paths is abridged (Levy-Livermore & Chowdhury, 1998).

(2.iii.) The Crowding Out Effect Theory

Next to the debt overhang is the crowding out effect that has also been established to hold strong presence in the side effect of external debt. This theory is strongly supported by studies by Claessen -et- al (1996) and Patenio & Agustina (2007). Philosophy behind the crowding out effect concept assumes that government debts expend a greater part of national savings meant for investment due to increase in demand for savings while the supply remains constant, the cost of money therefore increases. The crowding out effect is an economic theory that argues that rising public sector debt drives down or eliminates private sector spending. The crowding out effect neo-classicalist theory argues that all individuals should have plan on their consumption decision entirely on their life cycle. Increasing borrowing increases the present consumption by shifting the tax burden and debt repayment to the future generation. Crowding out also refers to the economic effects of expansionary fiscal actions of the governments. If governments decide borrowing from the domestic market to finance its budget deficit it would then have to compete with local companies thereby squeezing them on the local markets thereby leaving small funds for the private sector development. If an increase in government demand, financed by debt issuance to the public, but however fails to stimulate the total economic activity then the private sector is said have been crowded out. The crowding out hypothesis maintains that if prices are held constant, an increase in real government demand financed by real taxes or public debt that has no lasting effect on real income of the future generation. Alternatively, crowding out implies that an increase in government spending, given flexible prices and a constant money supply, has no lasting effect on nominal income of the future generation. Crowding out effects usually occurs due to excessive real interest charges while the terms of trade of an overly indebted country become worsen while foreign credit markets may no longer be available. Claessens- et- al. (1996) identified the decline in investment as being the effect of a decrease in a country's available assets for financing investment and macroeconomics activities. Reduction in nation's capability of maintaining its debt resulting from the crowding out effect; and therefore, as it strives to meet some of its obligations, leaving little capital for domestic investment (Patenio and Agustina, 2007). The philosophy behind the crowding out effects concept assumes that government debts expends a greater part of the national savings meant for investment due to increase in demand for savings while supply remains constant, the cost of money therefore increases. Crowding out effects set in at a point when only government and its agencies would be able to borrow due to excessive interest charges. Individual entrepreneurs and firms are thus unable to compete and hence crowded out of the market. Economic growth is thus affected via the economies inability to generate enough capital for investment. Clements- et- al. (2003) further confirmed the foregoing negative reviews and scenarios and the effects of excessive borrowings were further validated by this and other findings which relates that the adverse effects of foreign borrowing on economic growth can be observed through debt stock and flow of service payments facilities that most probably crowd out public investment. The findings of Taylor (1993) deduced that debt caused liquidity restraints is a resultant effect of decline in government expenditure due to the continuous servicing of outstanding debt stocks in excess of what the economy can contain. Karagol (2004) indicated that there is much interest from developing countries in the link between external loan and economic development since debt overhang has an impact on investment and thus economic growth. However, the cause and effect are not a simple matter to establish because clearly, debt overhang has a substantial influence on the rate of investment. Claessens- et- al. (1996) discuss debt overhang theory, showing that anticipated debt burden is an increasing aspect of a nation's productivity. As debt services grow, foreign creditors effectively remove many of the earnings accruable from investment within the local economy. Accompanying this removal is the total discouragement of new foreign investments (Clements- et -al., 2005; 2006). This will in no small measure directly hamper capital formation (Dijkstra and Hermes, 2001). In effect, debt servicing transfers wealth from the domestic arena to international arena thus creates certain dramatic multiplier accelerator effects that reduce the economy's capacity to development while simultaneously enhancing its dependence on foreign debts (Metwally and Tamaschke, 1994). Theoretically when government expands it's borrowing to finance increased expenditure, or cuts taxes (i.e. it is engaged in deficit spending) it crowds-out private sector investment by higher interest rate. As concerns the controversy in modern macroeconomics on the subject, it is due to disagreements about how financial markets would react to expanded government borrowing. If increased borrowing leads to higher interest rates by creating a greater demand for money and loanable funds and hence a higher price (ceteris paribus), the private sector, which is sensitive to interest rates will likely reduce investment due to lower rate of return. That is the investment is crowded-out. However, the fixed investment and other interest sensitive expenditures have impacts by varying extents due to expansionary effect of government deficits. A fall in fixed investment by business can hurt long-term economic growth of the supply side, i.e. the growth of potential output. This crowding-out effect is moderated by the fact that government spending expands the market for private sector products through the multiplier and thus stimulates fixed investment (via the accelerator effect) or crowds-in. This accelerator effect becomes more important when business suffers from unused industrial capacity during serious recession or depression. Crowding-out can be avoided if the deficit is financed by simply printing money, but it carries concerns of accelerating inflation.

3) CONCEPT OF PUBLIC DEBT

Public debt is defined as the accumulated of government borrowing from either private sector of the country or from abroad (Mayo, 1996). These are borrowing made by governments to finance its recurrent and capital expenditure. This research has focused on public debt for two reasons, first external borrowing can increase a country’s access to resources while domestic borrowing only transfers resources within the country. Hence, only external debt generates a transfer problem (Keynes, 1929). Second, since central banks from developing countries cannot print “hard” currency necessary to repay external debt, external borrowing is usually associated with vulnerabilities that may lead to debt crisis. The public debt may consist of both external and domestic debt. It is important for government to improve the economic status of the country; this can only be done if there are available resources for the public expenditure. These resources could be obtained internally from domestic market and also from taxes paid (Karagol, 2002). Externally this funding can be borrowed from multilateral institutions (i.e. IMF; World Bank), bilateral agencies (i.e. Agence Francasise De Development (AFD); German Development Bank (KFW); Department for International Development (DFID) UK; Danish International Development Agency (Danida); Millennium Challenge Corporation (MCC-US) and commercial debts (i.e. Eurobond market). Public debt is important and valuable if it’s invested in economic and productive ventures so that the projects in the medium to long term generate enough resources to repay both the principals and interest payment. Public debt can also create macroeconomic stability in the economy of a country. It can be used to regulate the economy through variations in the volume, composition, and yield rates of such debts (Bhatia, 2009). Public debt can be classified as sum of external debt and domestic debt. As far as the relationship between external debt and economic growth is concerned, a reasonable level of borrowing is likely to enhance economic growth, through capital accumulation and productivity growth (Chowdhury, 2001). Because at early stages of development, countries have small stocks of capital and they have limited investment opportunities. External borrowing for productive investment creates macroeconomic stability (Burnside and Dollar, 2000), external debt is also been seen as capital inflow having positive effect on domestic savings, investment and economic growth; it implies that foreign savings complement domestic savings to cater for investment demand (Eaton, 1993). However, high level of accumulated debt has an adverse effect on rate of investment and economic growth. Most broad rationalization of the adverse effect of debt is "debt overhang" effect. If there is some likelihood that in future, debt will be larger than the country's repayment ability then anticipated debt-service costs will depress further domestic and foreign investment (Krugman, 1988; Sachs, 1990; Karagol, 2002). The other channel through which debt obligations affect economic growth is known as "crowding out" effect. If a greater portion of foreign capital is used to service external debt, very little will be available for investment and growth. Debt-servicing cost of public debt can crowd out public investment expenditure, by reducing total investment directly and complementary private expenditures indirectly (Karagol, 2002; Diaz-Alejandro, 1981). However, various authors (Pattillo 2002, 2004) are unable to find evidence of a significant crowding out effect, while others (Chowdhury, 2004, Clements, 2003, Elbadawi, 1997) finds that both debt burden and debt service obligations have reduced the investment and economic performance.

In developing countries, policy makers and international organizations have given domestic debt far less attention as compared with external indebtedness. Issuing domestic debt, whether to finance fiscal deficit or to mop up monetary liquidity, involves a complex assessment of the costs and benefits to the economy. The justification behind creation of domestic debt in poor countries is that it kindles development of deep and liquid internal financial markets, protect countries from unfavorable external shocks, and mitigate foreign exchange risk (Del, 2003; Aizenman, 2004; Kumhof, 2005). Domestic debt can crowd in risky private sector investment by protecting bank balance sheets and profitability (Barajas 1999; 2000). As such, investments are more proficient compared with investment associated with low risk. Most important concern about domestic debt is crowding out effect on private investment. When governments borrow domestically, they use domestic private savings, otherwise that may have been on hand for private sector lending. In turn, smaller residual pool of loan able funds was available in market to elevate the cost of capital for private borrowers. It results in dropping private investment demand, and therefore capital accumulation, growth and welfare (Diamond, 1965). Domestic debt is also viewed as more expensive in comparison to concessionary external financing (Burguet, 1998). As a result, interest load of domestic debt may absorb important government revenues and thus crowd-out pro-poor and growth enhancing expenditures. High-yielding government domestic debt held by banks can make them self-satisfied about costs and decrease their efforts to mobilize deposits and fund private sector projects (Hauner, 2006).

(3.i.) External Debt

Total external debt as defined by the World Bank is “the debt owed to non-residents which is repayable in foreign currency, goods or services”. External debt involves a country such as Ghana borrowing from foreign countries, multilateral institutions, bilateral or commercial including the issuing of Euro bond to finance their budget or capital projects. External debt is that portion of a country’s debt that is acquired from foreign sources foreign corporations, international donor agencies, IMF, World Bank, African Development Bank, Ecowas Development Bank and other international bodies. External debt is that portion of the total public debt of a country that is owed to creditors outside the country (Abula-et-al, 2016). Due to the scarcity of resources and the law of comparative advantage, countries depend on each other to foster economic growth and achieve sustainable economic development (Adepoju -et- al, 2007). According to Hirschman, (1958) external debt is widely used to enhance economic growth and development. The necessity for governments from mostly developing economies to borrow from external debt market are inability to generate enough resources locally but resort to borrow from external sources to finance their budgets as well as capital projects which has led to the development and growth of the external debt market (Osinubi-et-al, 2006). As a consequence of normal activity most countries tend to have some kind of national debt. Sometimes, countries accumulate unmanageable levels of debt due to particular economic crises. According to Pattillo- *et al*., (2002), when developing countries borrow at judicious echelons, economic theory suggests that economic growth is likely to improve. In general, two main factors according to Soludo (2003), motivates the decision to borrow; Either to increase investment opportunities, increase spending on education and health or to fund transient deficit in balance of payments in order to reduce the rates on nominal interest overseas, inadequate levels of domestic long-term funding sources, or to circumvent hard budget restraints. This means that countries borrow to increase the growth potential of their economies and poverty reduction. Also, on the external front, an increasing trend of the external debt stock has the implication of not only exacerbating balance of payments problems, but also increase the interest payments on external debt which in turn worsens the fiscal deficit problem, vis-à-vis the public debt through interest payments (Alagidede -et- al., 2013). This means the possibility for sustained long-term growth could remain slim since important export revenue goes to pay off foreign debt at the expense of capital reinvestment (Meng, 2004). Osei (1995) shares the same view and argues that debt repayment inevitably imposes constraints on a debtor country's growth prospects since it involves the transfer of resources to other countries. Thus, such huge levels of deficits, vis-à-vis public debt not only threaten growth through spending cuts and austerity measures but also impose a drag on the economy through attempts to reduce them (Alagidede- et- al., 2013).

(3.ii.) Domestic Debt

Domestic debt refers to that portion of country’s public debt borrowed from within the confines of the country. These borrowing are usually obtained from central bank, deposit money banks, discount house, non-bank financial institutions, corporate bodies and individuals. Domestic debt consists of government borrowing from within the domestic economy. This type of debt, unlike the external debt does not increase the total resources available to the country. There is simply a transfer of resources from one end to the other public services purpose (Nuredeen & Usman, 2010). Also, the interest payment only transfers resources from the tax payers to the bondholders. Domestic debt only effects a transfer of purchasing power among the citizenry of the country, thus there is no giving up of real output to another country. Instruments used for domestic debt include treasury bills, bonds, treasury certificates and others. The government borrows from domestic market to finance budget as well as financing capital projects. The oppressive burden of expensive domestic debt has fostered the initiative by various governments to borrow externally at the cheaper rate of interest. For example, in 2018, the government of Ghana through the Ministry of Finance and Economic Planning borrowed US$500 million from Global Depositary Notes (GDN) to refinance expensive domestic cedi denominated debt. The advantage of issuing domestic currency debt is that it can serve as an effective strategy for the country to reduce its vulnerability to exchange rate valuation effects caused by excessive capital inflows followed by sudden outflows and capital reversals. Debt denominated in the local currency also increases the policy space because it allows the monetary authority such as Bank of Ghana counter external shocks such as commodity price shocks (cocoa and oil) or slowdown in world demand through exchange rate depreciations without bringing about a sudden jump in the debt/GDP ratios, and possibly, debt crisis (IFS, Working paper no 3/2015). However, issuance of domestic debt does have its drawbacks, as it is costly to obtain because government will have to offer higher interest rates on domestic bonds and bills relatively compared to external bonds issued in the global market. Furthermore, domestic debt increases the exposure to refinancing risk owing to its short-term maturity. Finally, the secondary market for domestic bonds has not been properly developed. As various governments from developing countries including Ghana decide to borrow excessively from the domestic markets to finance its budget deficits, they would compete with local companies thereby crowding them out on the domestic market thus leaving little funds for private sector development. Patenio and Agustina (2007) opine that reduction in a country's capacity to service its debt obligation as a resulting from crowding out effect could leave a little capital for domestic investment thus affecting the economic growth and development. On the domestic front, the consequences of such a huge and growing domestic debt are that, first, a sizable portion of government revenue will be channeled to servicing the debt; and second, the likely increase in interest rates will lead to high cost of borrowing by the private sector which will crowd-out private sector investment (AFRODAD, 2011). Also, investor confidence in the country could be dampened by the deteriorating debt-GDP ratio as increased borrowing may further deter international investment and hinder private sector growth (IMF Country report, 2013). Excessive domestic debt affects the interest rates and interest rate structure. When the government borrows from the domestic market, there emerges a fund crisis (due to excess demand) which raises interest rates. The interest rate is an important determinant in investment decisions, so high interest rates reduce profit margins and deter investment especially since retained earnings are an important source of finance. The second impact is through taxation. Debt has to be paid and the economy has to generate the revenues to service debt through taxation. A high debt burden sends signals on the magnitude of government liability and thus the taxation expectations for debt service. High taxes are a disincentive to investment.

Lastly, domestic debt cannot be defaulted, unlike external debt. This is because domestic debt is mostly held by the banking sector and default may trigger a banking crisis. Hence, rising domestic debt levels increases default risk in the financial sector players who in turn increase interest rate levels on funds loaned to the private sector.

4) OVERVIEW OF GHANA'S PUBLIC DEBT

The public debt in Ghana is defined to include all borrowing by central government and those guaranteed by government for the benefit of state-owned enterprises. The current primary governing law for debt management is the Public Financial Management Act 2016 Act 921 and the Section 72 include inter alia; government borrowings and debt management operations; guarantees and lending activities; list of outstanding government debts; list of outstanding government guarantees; the amount and beneficiaries and list of lending operations including outstanding amounts. One channel of financing the government deficits is through borrowing from external and domestic sources. Externally, the government of Ghana has resorted to borrowing to finance projects and program loans from multilateral institutions as well as issuing sovereign bonds on international financial markets. For the last decade, Ghanaian governments had also borrowed to finance their budgets; to refinance maturing external bonds and also to refinance expensive domestic cedi denominated debt. For example, in 2018, the government borrowed US$ 1billion to finance the 2018 budget; borrowed up to US$1.5 billion to refinance maturing bonds (i.e. the 2022 and 2023 Eurobonds) and also borrowed about US$ 500 million under Global Depository Notes to refinance expensive domestic cedi dominated debt. On the international scene over the past few years, the emerging and developing countries had faced economic challenges attributed to increasing oil prices, rising US Federal Reserve policy rates, appreciating US $, in the midst of international trade tensions between USA and China, Mexico, European Union, Brexit uncertainties and geopolitical conflict. These factors have created bigger challenges on public debt management, especially countries such as Ghana with high external financing requirement.

Although this method could limit the crowding out effect, it adds to the debt burden through interest payment, besides the tight conditions that may come with it. It is instructive to note that large portions of Ghana's debt were contracted at floating interest rate and debt-servicing cost is likely to be affected due to the recent increase in interest rates by the US Federal Reserve. Provisional fiscal figures for 2018 shows that the share of external debt service in overall government expenditure has grown from 2.3% in 2011 to 4.7% as at December 2018 (Ministry of Finance, 2018). This may increase budgetary outlays in the coming years which, in turn, could lead to larger deficits. Interest rates on the sovereign bonds have mostly been determined on the market and have been a bit unfavorable to Ghana's economy. For instance, in 2018, the government secured its fourth Eurobond of $1 billion at 10.750% coupon rate with maturity of 15 years. Countries such as Côte d'Ivoire paid 6.625% in 2017 while Senegal's Eurobond yield was 6.25% in 2016 most likely due to their relatively stable macroeconomic environments (Economist Intelligence Unit, 2017). The double-digit (10.25%) yield for Ghana's bonds substantially increases Ghana's borrowing costs and makes it expensive to access global capital. It is therefore prudent to suggest that addressing the current domestic pressures and bringing the public finances in balance could enable access to capital at reasonable costs. Interestingly, while the cost of the US $1billion Eurobond is expensive in international markets, it could not have been cheaper to raise more funds domestically as current yields in the local debt markets are around 18%. These high coupon rates have severe ramifications for domestic private investments and economic stability, as seen in decline domestic real investment and escalating debt service cost which further constrains social spending. Reliance on external borrowing sources, which is mostly in foreign currency, changes the exchange rate, which ultimately affects the value of the external debt expressed in domestic currency. In addition to the external borrowing, the government also resorts to domestic financing, mainly from banks including Bank of Ghana and commercial banks as well as the non-banking sectors. Past fiscal deficits have been financed through borrowing from commercial banks and the private sector (non-banks and other domestic sources). This is usually preferable because it does not add up to foreign debt and is anti-inflationary. Borrowing from domestic commercial banks as a financing option does not involve creation of money except when the bank decides to accommodate the additional demand for credit from the commercial financial institution by supplying them with additional reserves.

In as much as borrowing is a key in financing budget deficits, the interest payment has in the past added tremendously to public debt. As it stands, official statistics from the Ministry of Finance (2018) reveal that, the share of interest payment on debt in overall government expenditure has grown from 8.5% in 2008 to 23.2% as at December, 2015, further to 41% in 2018 and domestic debt takes a substantial amount of this. Given this fact, it may be useful for government to curb its borrowing requirement, and make more effort to reduce interest payments (this goes hand in hand with having a sustainable deficit such that it will not cause bond yields to rise) as well as the cost related to government debt by having the right mix of government securities. Apart from commercial banks, the government, until the passage of Bank of Ghana Act 2002 Act 612, the government relied heavily on financing from the Bank of Ghana. The Bank of Ghana Act 2002 limited the government borrowing from the central bank to 10% of its revenue. In past fiscal discipline has not been hallmark as fiscal dominance plagued the Bank of Ghana's monetary policy by exceeding the 10% limit set by the Bank of Ghana Act 2002 Act 612. For example, according to various IMF Country reports on Ghana, the country recorded 10.9% in 2011; 10.3% in 2012; 12% in 2013 and 13%. Furthermore, over the past decade, large fiscal deficits have added significantly to the public debt eroding the fiscal buffer created by the ex- President Koffour's debt relief (IMF, 2017/17/262). Fiscal slippages have been particularly more pronounced in the election years where the incumbent governments indulged in unplanned and short- lived project expenditures to win votes. With fiscal discipline and the passage of both the Bank of Ghana (Amendment) Act 2016 Act 918 and Fiscal Responsibility Act 2018 Act 982, the governments will have to adhere to the 5% explicit limit of government borrowing and 5% budget deficit limits respectively.

5) TRENDS OF THE GHANAIAN DEBT PROFILE OVER THE PAST TWO DECADES.

Ghana has long depended on aid and other loans to support its development since independence. This saw its debt rise steadily over the years. The level and structure of Ghana's public debt have evolved over the past two decades. The combination of debt relief initiatives and sustained growth performance saw debt/ GDP ratio plummeting since the mid -2000s. However, this trend started reversing since 2011 because of worsening fiscal positions and exchange rate depreciation and decline in commodity prices (IMF, 2013). One of the greatest problems facing Ghana today is the amount of the rising public debt especially the external indebtedness. The public debt especially with external debt problem is becoming more acute for a number of reasons. First, the size of the debt relative to the size of the economy is enormous and can lead not only to capital flight but it can also discourage private investment. Secondly, with the rising of external debt over the past decade, debt servicing payments form a significant proportion of the annual export earnings. Meeting debt servicing obligations crowd out significantly into whatever other facilities could be provided to improve the welfare of the Ghanaians and therefore has a serious macro-economic implication (Ajayi, 1991). Thirdly, the debt overhang would threaten not only the execution of projects but also the prospects of success of adjustment programs being embarked on by the government. Fourthly, the current debt overhang and crowding out will have a dire macroeconomic impact on Ghana's future economic output.

Relying on both external loans and domestic borrowing to support its development, Ghana saw its debt rise over the years, reaching over 100% of GDP in 2000 (Kwakye, 2012). The total debt stock of Ghana stood at GH¢4.11 billion or 124 percent of GDP. Out of this amount, GH¢3.17 billion (or US$5.80 billion) was external and GH¢0.94 billion (or US$1.7 billion) was domestic. The ratio of Ghana's external debt stock to its domestic budget revenue was 571%, an excess of the 250% threshold considered as a sustainable limit (pre -HIPC,2001). Thus, the debt situation in Ghana was very unsustainable by the end of the 1990's, attributable to excessive cheap money and high fiscal deficit, among others (Koos de Bruijn & Rehbein, 2011). When the IMF and World Bank introduced the Heavily-Indebted Poor Countries (HIPC) initiative in 1999, Ghana was judged to be a HIPC with unsustainable debt (Kwakye, 2012) with serious implications for the economy. The total public debt stock as at December, 2000 stood at GHC 4.92 billion (US $3.4 billion) representing 156% debt/ GDP ratio, with external debt component of US $ 6.02 billion (GHC 4.1 billion and domestic debt of GHC 0.78 billion. By the end of December, 2001, the total public debt stock stood at GHC 5.2 billion (US$ 7.5 billion) thus representing 88.1% debt/ GDP ratio with external debt component of US$ 6.02 billion (GHC 4.3 billion) and domestic debt of GHC1.01billion. The total public debt stock stood at the end of December, 2002 was GHC 6.84 billion (US $ 5.38 billion) representing 82% debt/GDP ratio with external debt of US$6.2 billion (GHC5.1 billion) and domestic debt component of GHC1.4 billion. By the end of December,2003, the public debt stock at GHC 7.99 billion (US $9.1billion) representing 119% of debt/ GDP ratio but declined to GHC 7.5 billion (US$ 8.3 billion) representing 93.7% debt /GDP ratio as at the end of 2004. The total debt rose marginally in 2005 to GHC 7.6 billion (US$ 8.4 billion) with the external debt constituting US$ 6.348 billion and the domestic debt amounting to US$1.997 billion representing 77.8% debt/GDP. According to Bawumia (2010), the total public debt stock declined from 156% of GDP in 2000 to 26.7 % in 2006 largely mirroring the path of external debt as it was influence by HIPC and MDRI debt reliefs. Ghana's total public debt as a percentage of GDP stood at 26.7%of GDP GHC4.89 billion (US$5.3billion) representing the external debt of US$ 2.177 (GHC 2.0 billion) and the domestic debt of GHC2.88 billion (US $ 3.13 billion). However, domestic debt stock increased from GHC 2.9 billion in 2005 to GHC 3.1 billion in 2006. The decline of the total public debt was due the highly indebted poor country initiative which was launched by the International Monetary Fund and the World Bank in 2006 with a goal of providing a permanent exit from repeated debt rescheduling for the country. The principal objective of the HIPC initiative was to bring Ghana's total public debt burden to a sustainable level. By the end of 2006, the external debt fell to as low as US$ 2.2 billion, the result of benefiting from HIPC relief starting from 2004 and MDRI relief 2006. Multilateral declined from US$ 3.95 billion to US$ 1.7 billion while bilateral debt fell from US$1.7 billion to US$ .73 billion and commercial debt also declined from US$.39 billion to US $.12 billion.

Ghana's total public debt rose to GHC7.2 billion (US$ 7.6 billion at the end of 2007 with external debt component of US$ 3.59 billion (GHC 3.48 billion) and the domestic debt of GHC 3.7 billion (US$ 3.96) billion thus representing 49.8% of GDP. By the end of 2008 debt/GDP ratio rose to

50.1%, the total public debt stood at GHC 9.51 billion (US$7.96 billion) with external debt comprising of US$ 4. 03 billion (GHC4.7 billion) and domestic debt component of GHC4.8 billion. Thereafter, the country's debt began to rise, reaching GHC9.51 billion in 2008, reflecting the large fiscal deficit recorded in the year and the impact of the cedi depreciation on the external debt. The public debt increased from GHC 9.51 billion in 2008 to GHC 13.2 billion in 2009 by a whooping GHC 3.53 billion representing 36.7% of GDP. The external debt stood at US$ 5.0 billion (GHC 7.2 billion) whilst the domestic debt component stood at GHC 6.1 billion. As at the end of 2010, Ghana's public debt stood at GHC 17.6 billion (US $ 11.97 billion) representing debt/ GDP ratio of 38.2% and the external debt component constituting of US$ 6.32 billion and domestic debt of GHC 8.28 billion. The public debt stock increased from GHC17.6 billion in 2009 to GHC 23.6 billion (US$ 15.3 billion) in 2011 by a whooping GHC 6.0 billion thus representing 39.84% of debt/ GDP ratio. The external debt was US$ 7.6 billion (GHC 11.8 billion) whilst the domestic debt stood at GHC 11.8 billion. Ghana's total public debt in 2012 was GHC 35.9 billion (US $19.2 billion) thus represented 47.8% of GDP after rebasing in 2010, but increased significantly to GHC 53.1 billion (US$24.4 billion) or 56.8% of GDP in 2013. In 2014, Ghana's public debt rose to GHC 79.5 billion (US$ 24.7billion) or 70.2% of GDP and further increased significantly to GHC 100.2 billion (US$ 26.4 billion) in 2015 thus representing 72.2% of GDP. By the end of

December, 2016, the public debt stock stood at GHC 122.2 billion (US$ 29.3billion) thus representing debt/ GDP ratio of 72.5%

Ghana's public debt stock stood at GHC 146.6 billion (US$ 32.3 billion) at the end of 2017, up from the 2016 figure of GHC 122.3 billion (US$ 29.3 billion). The total public debt as a percentage of GDP declined from 73.2% to in 2016 to 69.8 % of GDP in 2017. Ghana's public debt stock as at the end of December, 2018 was GHC 173.1 billion (US$ 35.9 billion) representing 57.9% of the rebased GDP. According to Ministry of Finance and Economic Planning Annual Debt Review (03/2019), a large part of the 2018 public debt stock additions of GHC 11.1billion resulted from the banking sector bail- out program of the government. The cost incurred by government to clean up the banking sector impairments resulted in the public debt increased by 3.2% of the rebased GDP. Excluding the bail-out costs, however, the stock of public debt amounted to GHC 163.4 billion (US$ 33.9 billion) thus representing 57.9% of rebased GDP as at end of December, 2018.

At the end of December 2018, the stock of external debt was GHC 86.2 billion (US 17.9billion) represented 28.9% of GDP while the domestic debt stood at GHC 86.78 billion which represented 28.9% of GDP. By the end of June 2019, the stock of public debt rose to 59.2% of GDP (GHC 204 billion compared with the December 2018 representing 57.9% of rebased GDP. Total domestic debt has experienced increasing trend since 2000, rising gradually from GH₵784.2 million in that year to GH₵4.9

billion in 2008. Thereafter, domestic debt increased very sharply, reaching GH₵86.2 billion in 2018 and then to GH₵94.8 billion at the end of May 2019. This indicates that domestic debt increased by GH₵4.1 billion between 2000 and 2008, GH₵13.6 billion between 2008 and at the end of 2018 later increased to GHC 94.8 billion at the end of May 2019. Total domestic debt stood at GH₵86.889.3 billion at end-December 2018, indicating an increase of GH₵6.0 billion by the end of March 2019. The total external debt stood at US$ 6.6 billion in 2000 but increased significantly to US $ 7.5 billion in 2003 but declined significantly to US$ 2,2 billion after the HIPC and MDRI initiatives in 2006 but has increased significantly to US$ 17.1 billion in 2018 and further increased to US$ 20 billion at the end of June 2019.

As a percentage of GDP, domestic debt dropped from 18% in 2000 to 11.7% in 2005 and thereafter increased gradually, reaching 20% in 2011.Ghana's debt stock as at the end of December,2018 stood at GHC173,068.7 billion (US$ 35,858 billion) comprising external and domestic debt of GHC 86,169 billion (US$ 17.868 billion) and GHC 86.9 billion (US$18.020 billion) respectively. This represented 57.9% of debt/GDP ratio. External and domestic debt accounted for approximately 49.7% and 50.3% respectively. The Cedi recorded a cumulative depreciation of 8.4% against US$ as at end of December, 2018 and this impacted negatively on external debt. The total public debt stock has increased from GHC 173 billion at the end of December, 2018 to GHC

198billion as at the end of March, 2019 further increased to GHC 204 billion at the end of June 2019 and by September 2019, debt reached GHC 208 billion or 60.3% of the GDP. The external debt stock increased from GHC 86.2 billion as at December, 2018 to GHC 115 billion at the end of June, 2019. Similarly, the domestic debt component has also increased from GHC 86.9 billion at the end of December, 2018 to GHC 99.8 billion at the end of March 2019 but declined to GHC 94.6 billion. Ghana's total public debt rose to 54.8% of the GDP (GHC 198.0 billion) at the end of March 2019 compared with 57.9% of the GDP at the end of December, 2018 but increased further to GHC 204 billion or 59.2% of GDP in June 2019. Of the total public debt stock of GHC 198 billion, GHC 11.0 billion or (3.2% of GDP) represented bonds issued to support the banking sector clean up. As a percentage of the GDP, the external debt has declined marginally from 29.6% in 2018 to 26.3 % at the end of March, 2019, while domestic debt increased from 29.3% in December, 2018 to 31.2% at the end of March, 2019. The stock of public debt rose to 59.2% of GDP (GHC 204 billion) at the end of June 2019. Of the total debt stock, domestic debt was GHC 94.6 billion (27.5% of GDP) while external debt was GHC 105. 4 billion (30.6 % of GDP) and the end of June 2019. According to Ministry of Finance and Economic Planning 2019 Budget Statement as at end of September, 2019, the nominal public debt stock was GHC 208. 6 billion (US $ 39.2 billion) comprising external and domestic debt of GHC 107.2 billion (US $ 20. 2 billion) and GHC101. 4 billion (US$ 19. 1

billion) respectively. Excluding the financial sector bail out, the public debt stock as at end of September, 2019 stood at GHC 197. 9 billion (US$37. 2 billion). The accumulation of public debt has been as a direct result of the gap between unplanned expenditures and revenues, which has widening due to inelasticity of debt servicing and infrastructural needs, deteriorating terms of trade and the failure to improve and enhance revenue collection over the long period. Ghana’s public debt stock stood at GHC 208.6 billion (US$39.2 billion) at the end of September 2019. The rate of debt accumulation as at end of September, 2019 was 20.51% was mainly driven by the deposit taking institutions bailout and the US$ 3 billion sovereign bond issuance, depreciation of the Ghanaian currency against major trading currencies and new disbursement on committed loans. According to Ministry of Finance (MOF) 2020 budget review as at end of September, 2019, the public debt / GDP ratio stood at 60.55%. This included the financial bail out and also the energy sector bailout. Excluding these bail outs, the public debt to GDP ratio as at end of September, 2019 was 57.44% below the Government target of 60% of GDP. Kwakye (2019) opined that the growing public debt of GHC 208 billion as at the end of September, 2019 was a source of concern as the country moved beyond the 60% of GDP threshold and 40% of the country’s tax revenue would be used for debt servicing, leaving 60% for other government expenditures. Kwakye further noted that more GHC 21billion to debt and interest servicing in 2020.

The ballooning of public debt remains a concern due to government's inability to attract non-debt creating inflows, poor domestic revenue mobilization, tax exemptions in respect of import duties as well as huge exchange rate depreciation. The most worrisome aspect was the continued growth of public debt which exposed the government to refinancing, interest and foreign exchange risks. The sharp increase in debt accumulation in recent years indicates that Ghana could return to HIPC status sooner than later. Ghana faced a high risk of debt sustainability in recent years, as the overall debt vulnerabilities increased and the country 's debt service-to-revenue ratio approached high-risk levels. Driven by poor revenues, deteriorating financing terms and external pressures, several of the country 's public domestic and external debt sustainability indicators deteriorated. Total public debt service-to-revenue ratio was not only on a rapidly increasing path but had breached its indicative long-term threshold. Debt service absorbed a large part of domestic revenue, leaving the country vulnerable to shocks. The external debt service-to-revenue ratio breached and subsequently stayed close to its indicative threshold in the long term while all other debt indicators deteriorated owing to the worsening domestic and external borrowing conditions, weak fiscal consolidation, and a weakening of the domestic currency.

6) Research Methodology and Methods

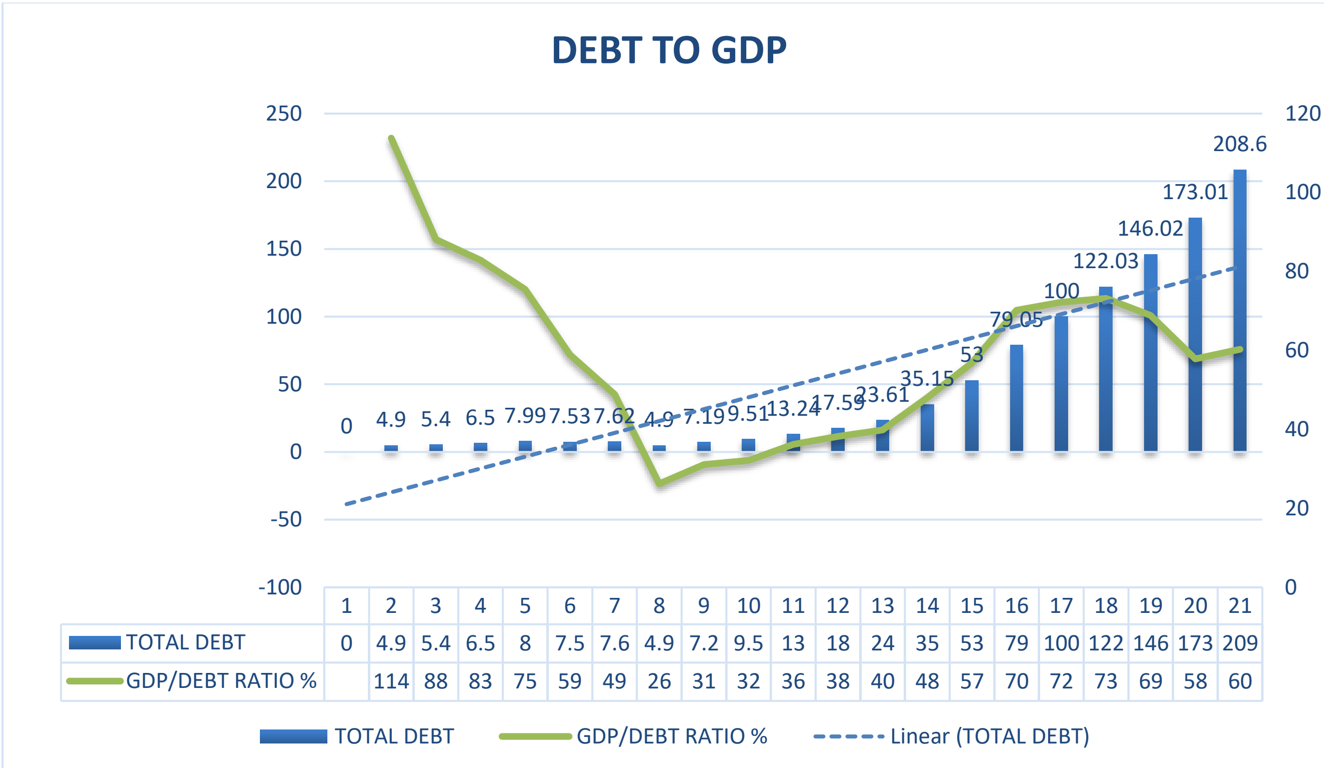
This study being historical and explanatory utilized secondary sources of information to describe the research phenomena. The research is a qualitative study which is based on secondary data that are collected by individual(s) other that the investigator and for purposes other than the investigator and for purposes other than the current needs of the researcher (Harris, 2001). Qualitative data are normally transient, understood only within context and associated with an interpretive methodology that usually results in findings with high degree of validity (Collis & Hussey, 2009). The process is economical because it saves time and cost that would otherwise be spent collecting data (Zikmund, 2010). The study adopted the documentary and library research method; therefore, it was mainly qualitative in nature. This involves the use of secondary data (existing within works) drawn from journal articles, information from Ministry of Finance and Economic Planning Annual Debt Reports 2014-2018; magazines and internet materials as well as facsimile. The works were selected based on their reliability and validity in relation to the topic under investigation. Furthermore, secondary data, secondary generally have a pre-established degree of validity and reliability which need not be re-examined by the researcher who is re-issuing such data (Bishop, 2007). Data collected from various sources enabled the researcher in comprehending the details of the research problem historical perspective. The bibliographical references and internet provide a complete list of the series of sources upon which the study was based. The table below reveals the total external debt, total domestic debt, the total public debt, exchange rate at the end of year and the GPD/ Debt ratio.

TOTAL PUBLIC DEBT 2000-2018 (Table 1)

YEAR	TOTAL EXTERNAL DEBT	TOTAL EXTERNAL DEBT	TOTAL DOMESTIC DEBT	TOTAL DEBT	EXCHANGE RATE	GDP/DEBT RATIO %
	US$ Billion	GHC Billion	GHC Billion	GHC Billion	GHS/US$	

2000	6.1	4.13	0.78	4.9	0.69	113.8
2001	6.25	4.35	1.01	5.4	0.72	88.1
2002	6.03	5.1	1.4	6.5	0.83	82.87
2003	7.54	6.64	1.35	7.99	0.88	75.45
2004	6.46	5.84	1.68	7.53	0.9	58.89
2005	6.34	5.79	1.82	7.62	0.91	48.89
2006	2.2	2.01	2.89	4.9	0.92	26.22
2007	3.59	3.48	3.7	7.19	0.97	31.06
2008	4.03	4.71	4.8	9.51	1.22	32.17
2009	5	7.13	6.1	13.24	1.43	36.18
2010	6.32	9.31	8.28	17.59	1.47	38.22
2011	7.58	11.76	11.84	23.61	1.55	39.84
2012	8.84	16.61	18.54	35.15	1.88	48.07
2013	11.09	25.08	27.02	53	2.17	56.86
2014	13.08	44.05	35	79.05	3.2	70.21
2015	15.07	59.09	40.01	100	3.79	72.2
2016	16.05	68.09	53.04	122.03	4.18	73.2
2017	17.01	75.08	66.08	146.02	4.41	68.9
2018	17.1	86.02	86.1	173.01	4.82	57.9
2019	20.1	107.2	101.2	208.6	5.03	60.3

Sources: Author's own compilation from the Ghana's Annual Debt Management Reports (2000-2019)



	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
TOTAL DEBT	0	4.9	5.4	6.5	8	7.5	7.6	4.9	7.2	9.5	13	18	24	35	53	79	100	122	146	173	209
GDP/DEBT RATIO %		114	88	83	75	59	49	26	31	32	36	38	40	48	57	70	72	73	69	58	60

7) CAUSES OF GHANA'S RISING DEBT

Ghana's debt has been rising again because of range of factors, from after-effects of the 2008-2009 global financial crisis and the commodity pricing slowdown to low domestic savings rates and infrastructure investment promises made by democratically elected governments over the past decade. The underlying causes of the rising debt are therefore, the continued dependence on commodity exports, as well as borrowers and lending not being responsible enough, meaning that new debts do not generate sufficient revenue to enable them to be repaid. Other causes are the sharp deterioration in terms of trade, higher interest rate changes on non-concessional loans, huge currency depreciation and higher fiscal deficits are often mentioned as some of the major causes of rapid growth of public debt in Ghana over the past decade.

First, one of the major factors that have contributed to the Ghana's rising debt was the unproductive use of borrowed funds. Funds have not been used judiciously. Ghana with huge infrastructural deficits, borrowed funds to supplement its small domestic revenue but invested in unproductive and uneconomic viable ventures. The huge borrowing was expected to generate higher returns on capital compared to that of some emerging economies. However, borrowed funds have not been invested in productive and commercially viable ventures capable of generating enough economic returns which could have been used to service the debt and eventually pay back the debt. Using part of Eurobond proceeds in financing of a major project, the government should principally look to the cash flows and earnings of the project as the source of funds for repayment for principal and interest payment. Furthermore, such projects should pass sensitivity analyze test which quantify the effect on the project (and in the case of a project loan, the effect specifically on cash flow available for debt service and on loan repayment. In preparation for the international capital market, the first task of the government was to identify a portfolio of projects which are viable for commercial funding with enough economic rate of return to service the underlying debt. Projects selected for funding were not commercially viable in their own right but sometimes for political expediency and also project yields did not have high economic rate of return to service the underlying debt. The decision on how to use borrowed funds is important to ensuring debt sustainability. At all costs, funds raised by issuing debt should be invested in projects that have a high private or social return. When borrowing in foreign currencies, the country should take great care to ensure that future export revenues will be sufficient to service the additional debt. Clearly, debt accumulation is unlikely to be sustainable if domestic or foreign borrowing is used to finance public or private consumption with no effect on long-term growth.

Most of the selected projects were desirable, but did not meet the criteria for access to commercial funding. However, the first debut sovereign bond in 2008 met the project criteria for sourcing the external funding as it was not properly appraised and evaluated.   Eurobond proceeds must be used judiciously to support projects that generate more future export revenues to service the debt. Furthermore, sovereign bond or Eurobond proceeds should not be thinly spread as done recently. Eurobond proceeds of US$ 1 billion was thinly shared among the Ministry of Energy and Petroleum, Ministry of Food and Agriculture, Ministry of Roads and Highways, Ministry of Railways Development, Ministry of Water Resources, Works and Housing, Ministry of Education and Ministry of Health. Some of detailed allocations under the Eurobonds looked very frivolous and flimsy, for example, the allocation of GHC50 million for the construction of green houses and capacity building training centers while not supporting the growth of oil palm and cashew sectors and also spent a whooping GHC45 million for supplying and installation of integrated e-learning laboratories for senior high schools in Ghana while we still have some primary schools in our villages and cottages operating under trees and dilapidated structures (Report of the Finance Committee, Parliament of Ghana, 03/2018) . The government should have sought concessional funding for projects like coastal protection and green housing project and capacity building instead of some funding these projects with expensive commercial debt. The decision on how to use borrowed funds is important to ensuring debt sustainability. At all costs, funds raised by issuing debt should be invested in projects that have a high private or social return. Clearly, debt accumulation is unlikely to be sustainable if loans are used to finance public or private consumption, with no effect on long-term growth. The fact is that development cannot be justified by high and unsustainable public debt. The country's debt can only be reined in through sustained fiscal prudence to help reduce borrowing. It is important therefore that loans contracted are used to develop the economy to enable it 'grow out of debt.' It will be a fatal mistake to use loans to fund recurrent spending or refinance debts that were used to fund recurrent spending that did not have a direct bearing on growth. But there are conditions under which even debt used to finance productive investment could turn out to be unsustainable. This happens if the ex-post returns on a project end up being lower than the interest and principal debt repayments, and should therefore be guided against very carefully.

Second, another factor that has contributed to the country's rising debt is the continuous high fiscal deficits driven by unproductive public spending. According to Bawumia (2010), the global food and fuel price increases in 2007-2008 adversely impacted most Sub-Saharan African countries, including Ghana. In the context of these global shocks and the 2008 elections, public sector spending increased substantially, raising the fiscal deficit from 7.6% of GDP in 2006 to 14.5% of GDP in 2008. Contributing to the strong fiscal expansion were high energy-related subsidies, increased infrastructure investment, higher wages and salaries, and a rise in social mitigation expenditures to dampen the effects of the global price shocks. Over the past decade the government primary deficits have been arising thus increasing the burden of debt because the governments had little resources to service interest on public debt. Fiscal deficits had worsened not only because of the plunged in export revenues but also because of the need to increase social spending and safety nets over the period. In Ghana, the lack of fiscal discipline is identified as a cause of the ballooned public debt up. For example, Ghana has been accumulating relatively large primary fiscal deficits over the past two decades, amplified every time the country was approaching elections. According to various IMF Country reports recorded high budget deficit over the past decade, for example in 2007 was 7.8% of GDP, 14.5% of GDP in2008; 10.9% of GDP in 2011; 10.2% of GDP in 2012; 10.3% of GDP in 2013; 12% of GDP in 2014 and 9.3% of GDP in2016. Ghana's continuous high fiscal deficit was driven by partly by unproductive public spending that was not efficient in supporting equitable development. However, around the 2008, 2012 and 2016 elections, fiscal slippages and unduly spending led to deep holes in the budget and unfavorable debt issuances. For example, the fiscal slippage in 2008 was the result of government subsidies of utilities, election year wage and salary increase and increased capital investment from proceeds of Ghana's sovereign bonds to deal with energy crisis (Bawumia, 2010). At root of Ghana's fiscal deficits was out of control government spending, largely to pay salaries of an overgrown civil service (Adams,2015). Fiscal slippages were due to bad public finance management in Ghana. As a result of this weak fiscal discipline, decline in commodity prices and high investment needs, the Ghanaian public finances have been under serious pressure over the years. A major factor that has contributed the debt problem is the levels of fiscal deficits over the past decade, borrowing to finance the deficits and the terms of borrowing. Among all these factors the most important is probably the fiscal deficit as it drives the level of borrowing and even the terms that can be obtained for such borrowing. Ghana opted for major development programs and highly expansionary fiscal policies during the oil findings in the late 2000s, acquiring external debt as spending increases outpaced the rise in tax receipts. These spending policies continued for some time after the post- collapse in commodity prices (cocoa, gold and oil). Ghana also used external borrowing to maintain consumption in the face of falling export earnings. The growing fiscal deficits also reduced the ability of governments to make debt-service payments as they led to declines in the growth of real national income, inflationary pressures, and depreciation of Cedi's against major trading currencies. Private savings, which could have been an alternative to foreign borrowing, were also discouraged by policies designed to keep domestic interest rates low. This resulted frequently in negative real interest rates and disintermediation in the financial sector.

Third, mismanagement of the economy has also contributed to the current debt crisis. For example, in 2008 according to Bawumia (2010) strong public spending growth with rapid credit expansion and rising oil import costs contributed to a widening of the current account deficit from 9.9% of GDP in 2006 to 19.3 of GDP in 2008. The overall balance of payments recorded a deficit of US $ 941 million compared with a surplus of US$413 million in 2007. The pass through from global commodity price shocks, combined with fiscal expansion of 14.5% of GDP resulted in headline inflation of 18.1% by the end of 2008. According to IMF (2019) on Ghana's/IMF health checks of the economy, that on 04/08/2014, the Cedi had depreciated by 40%, inflation reached double digits and the Bank of Ghana only had around seven days' worth of imports in net foreign exchange reserves equivalent to US $400 million. In the first of 2014, the fiscal deficit was almost exclusively financed by Bank of Ghana printing money for an amount equivalent to 22% of the previous year's fiscal revenue.

Fourth, deterioration of the public finances over the past two decades had contributed to the public debt up in Ghana has resulted from increased structural fiscal deficits. While in the period 2008 -2017, Ghana has recorded budget deficits of more than 5% of GDP. The government budget balance as a percentage of GDP declined from 8.6% of GDP in 2000 to 2.0% of GDP by 2005, before increasing to7.8% of GDP in 2007 and 14.5% of GDP in 2008. The increased fiscal deficits have three main reasons. First, on the expenditure side, large investment programs were executed without assessing the impact of increasing export receipts in the long term. Large public investment projects have triggered unsustainable public debt accumulation as most borrowing decisions were ill-considered. Indeed, some public projects financed by loans closed at unfavorable terms has been a destabilizing factor for the country's public finances. In addition, there were risks that projects had weak return on investment were chosen. Not in all cases did some investments actually led to an increase in export receipts. This was example in the case of Ghana in 2018 Eurobond allocation. These projects often foresee for example, construction of greenhouses and capacity building training centers and coastal protection.

Fifth, unprecedented borrowing in foreign currencies has been exposing Ghana to exchange rate risks over the past decade. Currency risk has been often underestimated. The cost of servicing a US$ denominated Eurobond might have looked cheaper than that of a debt issue in local market, but the national currency declined over the period the cost of foreign borrowing arose. Vulnerability to currency risk increased as the Ghanaian government was dependent on the exports of one or two (cocoa and gold) commodities for revenue and foreign exchange. Amidst increasing of external debt, is the depreciation of the Ghanaian Cedi against the US dollar has been a great concern for governments and other policy makers. The depreciation of the local currency results in more money to pay for the debt. The Cedi has depreciated against the US$ over 300% since 2008. Holding more external debts denominated in foreign currency exposed Ghana to currency fluctuations. In exchange rate depreciation of the Cedi against major trading currencies in 2014 led to increase of 10% of Ghana's external debt to GDP ratio. According to Ministry of Finance and Economic Planning Annual Debt Report (2018) the Cedi depreciated the US $ (2014; 31.3%; 2015; 15.7%; 2016; 9.7%; 2017; 4.9%; 2018; 8.4% in 2019) averaging 14% making the foreign currency debt became more burdensome. And this created a vicious cycle as the debt becomes more difficult to service, the default risk rises, and foreign currency investors are then even more inclined to stay away, leading to more capital outflows and making it nearly impossible to refinance and service that debt thus speeding up the trip to default.

Sixth, many Sub –Saharan Africa countries including Ghana have not been innovative in generating domestic revenue with revenue / GDP ratios remaining constant and declining in some instance, and therefore continued to rely on external sources of funding which tends to be expensive. In this regard, Ghana is no exception to borrowing. The government's efforts towards fiscal consolidation remained constrained by high public spending in the face of relatively weak domestic revenue mobilization, owing to high levels of tax exemptions and tax avoidance. For example, fiscal data from the Ministry of Finance and Economic Planning (2018) noted that tax exemptions in respect of import duties, import value added tax, import National Health Insurance Levy and domestic value added tax had grown from GHC 392 million (0.6% of GDP) in 2010 to GHC 2.6 billion (1.0% of GDP) in 2017 and further to GHC 4.66 billion (2.4% of GDP) in 2018. Quartey (2018) cited that the import tax exemptions as a major threat to domestic revenue mobilization. According to him, in 2018 alone, import exemptions increased to 33.6% of total revenue making up to GHC 4.2 billion. Tax enforcement still remain a big challenge as many individuals and companies continue to benefit from various loopholes in the tax system. Its current lower middle-income economic status, makes it relevant for the country to continuously invest in the productive sectors of the economy to ensure sustained growth. Ghana has a very weak tax system and, as a result, the country does not generate enough tax revenues to fund its expenditures. Therefore, taxes are not considered a good option for funding budget deficits. Additionally, the informal sector of Ghana's economy is excluded from the tax base of the country due to the lack of an accurate database of that sector, which makes it difficult for the tax system in Ghana to track their economic activities and tax them accordingly (Bagahwa and Naho, 1995). Lack of innovative ways of raising domestic resources to reduce Ghana's dependence on borrowing to finance its investment needs. This has led to sovereign bonds and other non- concessional loans thereby driving up to its debt /GDP towards pre-HIPC levels. Weak domestic revenue mobilization has become Ghana's key fiscal challenge and risk, the root cause of fiscal imbalances, and the biggest single threat to the government's development objectives. The low domestic revenue mobilization can be blamed on leakages at the revenue collection agencies as well as the lack of proper mechanism to formalize the informal sector of the economy. Recent work by the IFS (2015) shows that Ghana's domestic revenue/GDP ratio remains far below the levels of its sub-Saharan African peers, and the revenue gap has increased significantly in the past years. Bopkin (2019) stated that the Ghana's tax to GDP is said to be around 13% compared with a 19.1% in Africa, 22.8% in Latin America, even though the Finance Minister in the 2019 budget statement said that the country's domestic revenue/GDP ratio averaged 20% in recent years, much less than the Sub Saharan African countries average of 27% of GDP, suggesting that Ghana's actual domestic revenue is far short of what the country's economic potential and institutional development could generate. If Ghana's domestic revenue had performed poorly among its regional peers, the country could have not generated significantly more revenue, which could have been used to pay off its expenditure overruns, with extra funds to pay off some of its debts

There has been the usual call for successive governments to improve domestic resource mobilization through efficient tax collection system, reduction of tax exemption schemes, the automation of tax administration, and through reform of the public financial management system and stemming of capital flight. However, at the heart of the problem of tax collection in Ghana is the highly informal nature of the economy underpinned and supported by the predominance of cash transactions as a result of financial exclusion. Unfortunately, many developing countries including Ghana have not made the link between financial inclusions on the one hand and the difficulty of collecting taxes on the other. The government since 2017 has tried to formalize the economy through digitization of the addressing system of houses, the national identification numbers, tax identification system, the reduction of the cost of doing business and the leveling of playing field for domestic as well as foreign investors in terms of taxes, duty free waivers.

The seventh factor that brought about the Ghanaian debt crisis was the many years of unfavorable terms of trade. The widening external debt to current account receipts ratio has been a major feature over the past decade. Strong public spending growth combined with rapid credit expansion and rising oil import costs contributed to a widening of the external current account deficit from 9.9% of GDP in 2006 to 19.3% of GDP in 2008. While Ghana's external indebtedness has increased in recent years, the current account receipts have decreased since 2011. According to IMF Country reports (2011-2017) the current account recorded negative ratios of GDP (-9.3% in 2011; -11.7% in 2012; -11.9% in 2013; -9.6% in 2014; -8.3% in 2015; -7.2% in 2016 and -5.5% in 2017). The decline in the export receipts contributed significantly to debt crisis of the 2000s. The significant drop in export receipt from cocoa, gold and oil, combined with a strong US$ (i.e. the value of the dollar increased relative to the value of other currencies) and high global interest rates, depleted foreign exchange reserves that Ghana relied upon for international financial transactions. Ghana consequently began to feel the strain of having to borrow to refinance the maturing 2008 Eurobond of US$ 750 million in 2019. The interest payment of the huge foreign debt has recently compounded depreciation of the cedi against the major trading currencies and massive capital flight. The persistent current account deficits not only depleted gross official foreign reserves but also involved an accumulation of external debts. The terms of trade have shifted against Ghana over past decades. Revenues from commodity taxation did not rise as fast, and previous governments used foreign borrowings to meet the cost of projects. When commodity prices declined, expenditures were not reduced commensurately, but governments resorted to additional borrowing to maintain expenditure levels. This policy would have been appropriate had the decline in the terms of trade been temporary but the deterioration of the terms of trade had persisted through 2000s. As the country still dominantly consists of commodity-based economy, the drop-in receipts from cocoa, gold and oil has been mainly due to decline in commodity prices. Oil discovery and volatility in commodity prices have been another cause of the Ghana's debt problem. According to some analysts, Ghana's post HIPC/MDRI debt crisis is a result of the gradual increase in borrowing off the back of the discovery of oil and volatility in world commodity prices. In early 2013, the price of gold fell significantly, as did the price of oil from the start of 2014. More money was therefore borrowed following the fall in the price of oil and other commodities to deal with the impact of the commodity price crash while the relative size of the debt also grew because of the fall in the value of the cedi against the dollar. The dependency on commodities was the central factor underlying a debt crisis which was common in the 2000s. Global commodity prices fell at the start of 2010 rapidly increasing the size of foreign debt payments which could only be paid out of foreign earnings such as exports. As commodity producers across the world expanded production in order to pay debts, on the advice of the IMF and World Bank, commodity prices stayed low over 20 years. A combination of the recent fall in prices of commodities such as cocoa, gold and oil and the external loans not being used well enough to ensure they could be repaid has now pushed Ghana back into debt crisis. At the same time, the rapid economic growth in the 2010-2016 periods, driven by the coming on stream of oil production in the country has led to an increased willingness and desire of various lending institutions to lend to the country, with a corresponding willingness to borrow (Jones, 2016). Secondly, on the revenue side, the Ghana has been seriously affected by the decline or collapse of commodity prices on the international market over the past decade. Ghana as a major exporter of cocoa, gold and oil have experienced significant decrease in fiscal revenues, yet the lion's share of export receipts did not build up sufficient buffers during the boom period to deal with shocks. A continued and sustained decline in commodity prices jeopardized the debt sustainability position of this commodity dependent nation, since a drop-in commodity prices reduce export earnings and therefore increase the debt service to export earnings ratio. Consequently, the country's debt increased astronomically during the last decade. A combination of commodities price fall and loans not being used judiciously enough to ensure that they could be repaid also contributed to pushing the country back into debt crisis.

Eighth, one of the important factors that has contributed to the debt crisis over the past decade was the lack of stricter conditions on the application of funds borrowed on the international bond market. Ghana has tapped into international markets at an increasing pace since 2007. Ghana has issued sovereign bonds with issuances of considerable size. Low interest rates and appetite for riskier financial opportunities, together with the expected positive growth prospects had fueled high and steady demand for international investors. This has allowed Ghana to borrow large volumes in a short time span and diversified its investor base (Tyson,2015). However, sovereign bonds had exposed Ghana to exchange and interest rate risks, with far higher interest rates than the concessional borrowing from the Multilateral and Bilateral donors. Furthermore, international sovereign bonds that involved bullet payments had also created significant refinancing risks. International bond investors impose no conditions on how funds are spent by sovereign borrowers, unlike multilateral and bilateral lenders. A bond prospectus may state that proceeds will be allocated to infrastructure development or debt rescheduling, but this is not always the case- and any mention of a use of funds is non-binding. Once they received of the proceeds from the Eurobond, they spend it how they like. According to Adams (2015) Ghana got into trouble in 2008 when they secured US$750 million that was earmarked for infrastructure but then mostly used for general budgetary purposes. International bond investors impose no conditions on how funds are spent by sovereign borrowers, unlike multilateral and bilateral lenders. A bond prospectus may state that the proceeds will be allocated to infrastructure development or debt rescheduling, but this is not always the case – and any mention of a use of funds is non-binding. “Once they’ve issued a Eurobond, and US$1bn or so rolls in, they can spend it how they like. That is what got Ghana into trouble,” says a Ghanaian debt specialist (Adams,2015). The country’s 2007 US$750m issue was earmarked for infrastructure but then mostly used for general budgetary purposes. Fungibility – using funds for a different purpose than originally stated – may not concern investors unduly, but it should concern legislators and citizens (Adams,2015). International bond investors impose no conditions on how funds are spent by sovereign borrowers, unlike multilateral and bilateral lenders which have stringent conditions attached. A bond prospectus may state that the proceeds will be allocated to infrastructure development or debt rescheduling, but this is not always the case – and any mention of a use of funds is non-binding. The lack of conditionality attached to a sovereign Eurobond issued has allured Ghanaian governments, as was the speed with which an issue could be packaged and launched, in comparison to funding from multilateral or bilateral donors. IMF and World Bank maintain that international sovereign bonds are not the best option for financing infrastructure investment and recommended concessional finance or a combination of concessional, public/ private partnership and syndicated loans instead (IMF, Africa

Department, 2014). The 2008 Eurobond proceeds were not invested in infrastructure or reforms that would sustain GDP growth and generate the extra revenue to service the debt. Instead, the government vastly increased the public sector salaries in 2009, which accounted for 70% of the national budget (Adams, 2015). The easy accessibility to international capital market has contributed the debt crisis. The government in 2008 focused on investments that would address the constraints to accelerated growth by moving away from multilateral and bilateral agencies to non-concessional lenders. Infrastructure bottle necks represented a critical constraint to accelerated growth which prompted the government to go to international capital market to borrow US $750 million at the commercial rates. However, by 2009 some of these funds were used to pay for civil services salaries instead of capital investment that would repay the interest and principal in the future.

Eighth, the recent increases in the public debt / GDP ratio of 60.55% in September 2019 has been attributed to the financial sector bailout and also energy sector bailout otherwise the public debt/ GDP ratio stood at 57.44%. (Ministry of Finance 2020 Budget Presentation to Parliament on 13/11/2019). The overall banking sector was fraughted with high non-performing assets, poor corporate governance practices and capital shortfalls over the period 2013 to 2016. The weak economy and the power sector problems during 2013-2016 period also affected the banking sector adversely, leading to high non-performing loans. As a result, the financial sector came under serious stress after 2016. Heightened vulnerabilities in the financial sector resulted in the resolution of five indigenous banks in 2018 in addition of to two local banks closed down in 2017 with substantial financial cost of GHC 13 billion to the Government. In 2019, 347 micro finance companies, 23 savings and loan companies and 8 finance houses were closed down with estimated cost of GHC 4.5 billion according to IMF (2019). As clean up of financial sector continued in 2019 and was estimated to be 3.11% of GDP. The financial sector bail out increased the public debt /GDP ratio from 57.44% to 60.55% (MOF, 2020 Budget presentation, 2019).

Lastly, the borrowing from China which is not a Paris Club member which is intended to finance much needed infrastructure development in Ghana, its lending is increasingly seen as a threat to debt sustainability (Brantigam & Hwang,2016; Hurley et al, 2018). This is because of large scale of the projects that are being financed such as railways, bridges and major roads in Ghana. However, these loans are growing rapidly since the early 2010s and often funding these large- scale infrastructures could pose repayment challenges if these projects do not generate sufficient future returns, especially foreign exchange. Over the past year, China has pledged US$ 2 billion to Ghana in loans, grants and developing financing. Through its Belts and Road initiative, agreement with the African Union, and at the forum on China -Africa cooperation, the Chinese has extended their win-win economic policy by investing in roads, railways and bridges. Ghana in dire need of boosting their infrastructure, economic growth and global competitiveness have increasingly looked to China for loans. Yet borrowing from China has come under scrutiny in recent years, with critics noting that they could encourage dependency, entrap Ghana into debt and push debt limits to unsustainable limit. Unless the investments financed by Chinese generates substantial economic gains in future boosting debt servicing capacity, the current loans will have significant effects for growth, debt sustainability and affordability. With an already mounting debt problem and low foreign exchange reserves, Ghana might be exposed to fiscal and external vulnerabilities. The nature of the debt and how it's collateralized against a specific quantity of a natural resources (e.g. Atiwa bauxite for development) must be source of worry. The "bauxite for development" barter agreement popularly known as Sinohydro deal between the Government of Ghana and the People's Republic of Ghana signed in 2017. For example, Chinese took over a land Tajikistan and a port in Sri Lanka in exchange for waiving of outstanding debt.

8) DISCUSSIONS ON THE GHANA'S RISING DEBT

The March 2019 IMF/World Bank debt sustainability analysis posited that Ghana is at high risk of debt distress even after the rebased of the country's GDP. Vulnerabilities associated with debt service remain, with debt service to exports, and debt service to revenue in breach of their baseline thresholds according to IMF in 2019. The research findings accurately reflect the phenomena under study. From theoretical findings showed that the debt situation that has arisen from the factors just discussed has had a severe impact on Ghanaian economy, exacerbating the problems arising from the sharp deterioration in primary commodity prices (cocoa and gold) over the past decade. With export earnings having fallen during 2008-2018, steady rising debt-service obligations have sharply constrained Ghana's import capacity. The decline in capital goods and intermediate imports has, in turn, has serious repercussions for the ability of the country to finance and undertake developmental projects. Besides debt problem will cause a decline in living standards, the accumulation of a substantial debt overhang it may impose tight constraints on economic policy. In Ghana, policy –making could deteriorate to a state of constant crisis management. Maintenance program such as Bui Power Authority that rely on imported goods could be slashed to curb overall government expenditure, and longer-term issues, such as the need for addressing deteriorating social services or improving education could not be addressed. Ghana's high debt may also create uncertainty, deterring investment and innovation and may negative impact on economic growth (Reinhart & Rogoff, 2010). The debt overhang hypothesis asserts that public debt servicing depresses Ghana's economic growth via a multiplier accelerator effect through various mechanisms: (i) it will drives up domestic interest rates, thereby increasing the cost of borrowing, which then will crowd out private sector investment; (ii) it will also cause a net flow outwards of domestic resources (comprising of external grants, aid and foreign exchange resources); (iii) it will present future tax uncertainty and a deterioration in domestic policies, which will in turn impact directly on real return on investment (iv) it will also increase the government participation in domestic capital and money markets which can lead to credit rationing and (v) it will also increase the government's appetite to borrow so as to service its debts, among other reasons (Clements et al, 2003; Patenio and Tan-Cruz, 2007).

First, Ghana's debt over -hang may result in high debt payments will lead to some externalities such as anxiety over high taxes and uncertainty on the part of investors which is likely to have an effect on present and future investment. Debt overhang may also likely crowd out investment by both domestic and foreign investors. This is because public spending or investments will be reduced because Ghanaian governments will have to service their debts. The overall effects will be the reduction in the future net after tax return on investment (ROI). Debt overhang may also scare off potential foreign investors who observe the huge debts accrued and debt servicing undertaken by Ghana. Debt overhang therefore will act as an obstacle to economic growth because disproportionately large share of current resources is deployed to service both domestic and external debt. As the country experiences debt overhang there will be a possibilities of excessive debt stock will introduce negative externalities in the Ghanaian economy beyond the transfer of resources, first on investment and adjustment and then on the economic growth. This is because high current and future debt transfers may lead to anticipation of future higher taxes and increased uncertainty both of which create disincentive effect on present investment or adjustment decision. A debt overhang problem might be experienced in the future because in the long run external debt affects GDP negatively implying that future external debt might be used to service domestic debt if borrowing is not contained. The debt overhang and the resulting squeeze on external resources could have also destructive effect on the economy. With foreign exchange resources stretched to the limit, arrears on debt service and external commercial payments would become common place. This could impair the credit worthiness of the country, and the number of domestic and foreign companies willing to invest or doing business could be plummeted.

Second, Ghana's debt overhang will be a major obstacle to the country's prospects for increased savings and investment, economic growth and poverty reduction cannot be denied. Ghana's debt burdens also have important repercussions for the country's future debt-servicing capacity and for its ability to increase real imports. The country's debt overhang would inhibit public investment in physical and social infrastructure. It will also hamper private investment, as investors could not be assured of policy continuity in an environment marked by severe external imbalances. And by undermining critical investments in health and human resource development, the debt overhang will also compromise some of the essential conditions for sustainable economic growth, development, and poverty reduction (UNCTAD,2004). Ghana's debt burden will also cause a decline in living standard; the accumulation of a substantial debt overhang will impose tight constraints on economic policy. The debt burden may result from inability to generate enough resources to meet commitment in debt servicing. The more resources that will be earmark for debt servicing, less resources will be available to ensure sustained economic growth and development. In general, the continuity of macroeconomic policies, which is an essential condition for the undertaking of structural reforms, would have to be sacrificed in order to cope with the pressures of the debt and debt servicing.

Third, Ghana's debt overhang will result in the squeezing of external resources that would have destructive effect on economic institutions. The debt build-up and the resulting squeeze on external resources will be also destructive to economic institutions. With foreign exchange resources would be stretched to the limit, arrears on debt-service and external commercial payments will be become common place. This will also impair the credit worthiness of Ghana and the number of domestic and foreign firms willing to invest or to do business in Ghana would be plummeted. Foreign direct investment, which is never very large to start with, is now negligible and future prospects are even worse. The scarcity of foreign exchange will also drive firms and individuals in many countries to import consumer goods, spare parts, and production inputs at high local prices through parallel markets, where the rate of exchange is often a multiple of the official exchange rate. Flourishing parallel markets have, in turn, would be encouraged the smuggling of exports, particularly where official exchange rates have not been adjusted in line with developments in parallel market. At the same time, the effects of rising fiscal deficits and monetary expansion will contribute to rampant inflation in Ghana, undermining savings incentives and making the country even more reliant on foreign funds to finance investment projects. Rapid increases in import prices have also led to a diversion of investment funds from productive projects to the stockpiling of imports in some countries. In addition, expectations of large changes in producer prices have disrupted the steady flow of agricultural products to official export agencies, sometimes reducing export earnings as countries cannot meet export quotas or take advantage of temporary increases in world commodity prices.

The fourth consequence is that investment spending would decline. The usual transmission mechanism for crowding out as the government borrowing would be necessitated by the deficit that drives up interest rate. For example, in 2013 both nominal and real interest rates increased sharply in 2012 and remained high despite some recovery in 2013. Ghana’s crowding-out would have a serious situation in an economy when the economy is at potential output. In this situation the government's expansionary fiscal policy encourages increased prices leading to an increased demand for money. This in turn leads to higher interest rates (ceteris paribus) and crowds-out interest-sensitive spending. At potential output businesses need no more markets, so that there remains no room for an accelerator effect. More directly, if the economy is at full employment gross domestic product, any increase in government purchases shifts resources away from the private sector. The phenomenon is sometimes called real crowding-out. The negative effects of such type of crowding-out on long-term economic growth can be moderated if the government uses its deficit to finance productive investment in education, training, health and research. Crowding-out may have a serious situation in an economy when the economy is at potential output. In this situation the government's expansionary fiscal policy encourages increased prices leading to an increased demand for money. This in turn leads to higher interest rates (ceteris paribus) and crowds-out interest-sensitive spending. At potential output businesses need no more markets, so that there remains no room for an accelerator effect. More directly, if the economy is at full employment gross domestic product, any increase in government purchases shifts resources away from the private sector. The phenomenon is sometimes called real crowding-out. The negative effects of such type of crowding-out on long-term economic growth can be moderated if the government uses its deficit to finance productive investment in education, training, health and agriculture. Crowding-out of another sort that is referred as international crowding-out may occur due to the prevalence of floating exchange rates, as demonstrated by the Mundell Fleming model. Government borrowing leads to higher interest rates, which attract inflows of money on the capital account from foreign financial markets. Under the Ghana's floating exchange rates, it will lead to appreciation of the exchange rate and crowding-out of domestic exports. It will also counteract the demand-promoting effects of government deficits but has no negative effect on long-term economic growth. Government borrowing from the banking sector leads to a more than one to one crowding out of the private sector. Government borrowing from the banking sector is not a sole reason behind crowding out of the private sector, but the increase of the banks' holdings of government securities and treasury bills and also reflects banks' preference to invest excess liquidity in a low risk high return investment. This is a case where the banking sector is currently populated by "lazy banks".

Fifth, Ghana with a high debt-GDP ratio which could be considered risky by investors due to the heavy debt burden. Debt burden will reflect on the difficulties and strains arising from the servicing of the debt. This is a potential that Ghana may not have the ability to generate enough resources to meet future commitment in the debt servicing (payment of the principal and interest payment). The burden will be measured in terms of proportion of future resources that will devoted to finance the past consumption (Net Present Value of Debt /GDP; Net Present Value of Debt to Export ratio; Debt Service / Export ratio; (Sources; IMF/World Bank Debt

Sustainability Analysis (2018;2010;2008). The more resources that will be devoted for debt servicing and the less resource available to ensure sustained economic growth and development. This is because investors may be unsure of whether or not that nation may default on its debt in the future. Although government debt is usually considered risk-free because a government could simply print money to pay off its domestic debt (at the risk of inflation), nations can and do default on their foreign debt, as did Argentina in 2001 and Zimbabwe in 2004, in which case bondholders will obviously lose money. A default will also have dire consequences on the nation’s ability to raise any more money directly from investors. This will have an adverse effect on the economy, thereby putting any investments in that country at considerable risk. Another concern for investors, particularly those that establish domestic business ventures, would be that the nation might decide to increase tax rates in order to shore up revenue to pay off the debt. This would obviously be bad for business owners. As a result of these potential issues, investors would usually charge a “premium” on the debt of nations with high debt-to-GDP ratios. This means that such nations would pay relatively higher interest rates on their borrowings, in order to account for the increased risk that investors take on by investing in their bond issues. Furthermore, the higher interest rates increase the likelihood of debt default. The growing high level of public debt may cause the debt/ GDP ratio to increase further from its current rebased of 57.9% to 60% and this may eventually result in higher interest payment by the government. In situation where generating taxes have not been successful over the past decade, the only way for government may have to increase taxes that will slow down economic activities in the economy and that will impact negatively on economic conditions of the Ghanaian citizenry.

Sixth, the rising Ghanaian domestic debt will induce uncertainty and affects private investment via high interest rates. High interest rates dictate that a large proportion of expenditure must be allocated to interest payments. Thus. it distorts the economy and complicates macroeconomic management. The high level of domestic debt will also force the government to impose a high tax burden on private investments and hence is a disincentive to investment. This is because a high domestic debt level is construed by investors as a future taxation of income to service the debt and also as signaling macroeconomic uncertainty. The persistent increase in the stock of domestic has negatively impacted on private investment levels in Ghana. It will reduce the current and future investment through increases in the cost of capital (borrowing by the private sector).

Seventh, another consequence of Ghana's high debt-to-GDP ratios is the high interest payments associated with the debt stock. This leaves little room for revenue inflows to be used for the provision of critical infrastructure or social services. This situation forces government to borrow even more in order to meet its developmental goals (and in some cases, election campaign promises), thereby perpetuating a vicious debt cycle that persists even as economic growth slows down on the back of inadequate or poor infrastructure. Between 2008 and 2018, Ghana’s interest payments almost doubled from 18.6% of total revenue inflows to 41% in 2018. In the 2016 fiscal year, interest payments on both domestic and external debt amounted to GH¢6.4bn increased to GHC8.6 billion in 2016 further to GHC 12.5 billion in 2017 and the country spent whooping GHC 14.9 billion in 2018 compared to GH¢9.8billion spent on capital projects. According to the Government’s 2020 budget amount allocated for interest payment is about GHC 19 billion one of the biggest items. These points to the need for urgent measures to be taken in order for the Government to reduce its interest burden, along with efforts to increase revenue, so that it can successfully carry out its rather ambitious development agenda. We know how this debt stock has accumulated over time; by extension, we are also aware of what needs to be done in order to ensure a decline in our debt-to-GDP ratio and reduced expenditure on interest payments. Another challenge with domestic is that it limits the resources available to the private sector to borrow for productive activity, which directly contributes the country’s GDP. The private sector consists of more than 60% small and medium sized enterprises, depends on this financing for expansion have crowded out. These have limited access to finance but hold the key to job creation and increased tax revenue generation and the private sector is also directly to the populace that is living in extreme poverty.

Seventh, Ghana may experience crowding out effect if the excessive borrowings are controlled. The high public debt weakens the transmission of Bank of Ghana's monetary policy. High public debt crowds out private debt, resulting in shallow credit markets and fiscally -induced pressures on interest rates. This reduces the impact of monetary operations on domestic financial conditions. The excessive government borrowing from the domestic market reduces capital available to the private sector for spending and investment. If governments continue to waste resources through loose public expenditures, the Ghanaian economy as whole will face a resource shortage, preventing sufficient private sector investment. If the crowding out mechanism is triggered, private sector capital accumulation will consequently become insufficient, leading to economic stagnation. Given that a cumulative increase in public debt can be viewed as a barometer of loose fiscal policy. Mostly, governments with unlimited appetite to borrow offer higher bond yields to attract the market and crowd out funds for the use by the private sector. Crowding out generally refers to the economic effects of expansionary fiscal policies and actions. Whenever there is increased in government demand which is financed by debt instrument issuance to the public, but it fails to stimulate the total economic activity, the private sector is said to be crowded out which is not positive economic growth and development of the country. The crowding out effect opines that the government's debt servicing requirement will lead to a reduction in the resources available to finance public investment projects. As more resources committed by the government to service debt, public spending on infrastructural and human capital development will fall and this dampen economic growth and development. Also, higher debt servicing can raise government interest bills and budget deficit will reduce public savings this in turn, may either raise interest rates or crowd out credit available for private sector thus dampening economic growth. This means, debt servicing payments will certainly crowd out both public and private sector investments. By shifting tax to the next generations in the form of debt service, the current consumption is encouraged which reduces savings. This situation increases interest rates in the capital markets which in turn discourage private investment. Low level of investment further reduces government revenues and hence it impedes its ability to influence fiscal policies. Crowding out effect begins with inability of domestic creditors (mostly the government through central bank as a lender of last resort) to meet investors' needs because of higher external debt servicing because of liquidity constraints. Current higher debt servicing implicates higher future taxes of which private investors escape it by being reluctant to invest.

Eighth, generally, Government debt as a per cent of GDP is used by investors to measure a country ability to make future payments on its debt, thus affecting the country borrowing costs and government bond yields. Rising debt servicing costs impact negative on the economic growth and development of the country. Interest payment on public debt increased sharply from GH₵393.4 million in 2006 to GH₵679.1 million in 2008, GH₵2.4 billion in 2012, and then to GH₵10.7 billion in 2016 and further to GHC 14.9 billion in 2018. This means that, the government paid a total of GH₵1.5 billion between 2006 and 2008 as interest on public debt, GH₵6.5 billion during 2009-2012 period, and rising to GH₵31.5 billion between 2013 and 2016. In 2017, a provisional amount of GH₵13.3 billion was recorded as interest payment on public debt. Interest payment is projected to increase to GH₵14.9 billion this year, implying that by end-2018, total interest payment by the government on its debt since 2006 will be equal to GH₵68.4 billion. Interest payment on public debt accounted for 8.5% of total government expenditure in 2008, rising to 11.8% in 2012, and then jumped to 21.1% in 2016. In 2017, interest payment accounted for 25.8% to 41% in 2018 of government expenditure, becoming a major factor behind the country's fiscal deterioration, besides wages and salaries. Interest costs are now higher than domestic-financed capital expenditure and threatening to equal or even overtake wages and salaries if public borrowing is not slowed down. Historically, debt service expenditure, comprising interest and amortization payments, absorbed 26.8% of total revenue and grant in 2013, but however this has been increasing consistently over the past five years. The ratio of interest and amortization payments to total revenue and grants increased rapidly to 47.9% in 2016 but marginally to 44.5% in 2017 and to 44.3% in 2018, but the ratio is set to rise sharply to 51.2% in 2019-close to double the 2013 ratio.

In fact, 2018 was the ninth successive year that total interest payment was larger than total domestic-financed capital expenditure, suggesting that interest payments will probably be financed through additions to public debt or at the expense of other key government expenditures. Not only that, but also as a percentage of total tax revenue, interest payment on public debt dropped from 16.9% in 2006 to 15.8% in 2008 but increased thereafter to an average of 20.2% between 2009 and 2012 and 36.6% during the 2013-2016 period. In 2017, interest payment on public debt was equal to 41.8% of total tax revenue. This means that while in 2008, about 16 pesewas of each GH₵1.0 tax collected by the government was used to pay interest on its debt, by 2017 the figure had increased to 42 pesewas due to the astronomical increase in the public debt stock over the period. This suggests that resources have been taken away from several critical sectors of the economy, with serious negative implications for growth and poverty reduction. Ghana's debt burden has been a major obstacle to the country's prospects for increased savings and investment, economic growth and poverty reduction cannot be denied. The Ghana's debt overhang has inhibited public investment in physical and social infrastructure. It has also hampered private investment, as investors could not be assured of policy continuity in an environment marked by severe external imbalances. And by undermining critical investments in health and human resource development, the debt overhang has compromised some of the essential conditions for sustainable economic growth, development, and poverty reduction.

Ninth, the high public debt will complicate monetary policy because it generates more complicated trade- offs. In cases where there is high foreign currency debt whenever there is a negative shock to economic activity, the sovereign risk premium may increase thus leading to a nominal depreciation of the currency. Monetary policy then may need to raise interest rates to limit the depreciation, but this further weakens domestic growth and put pressures on domestic government borrowing costs. The prolongation of the Ghana’s rising debt would appreciate to unsustainable level as in the case of Greece in 2011 that could generate overhang effects by worsening the economic situation thus increasing the uncertainties regarding the upturn perspectives, exacerbating management difficulties aimed at the recovering of sovereign payments and to restoring of financial stability and of market access.

Tenth, the analysis showed that interest rate risk continued to be serious concern for both external and domestic debt. In addition, over half of Ghana’s public debt was exposed to foreign exchange risk. Even though the nominal exchange rate was relatively stable during the first three quarters of 2018, the depreciation of the cedi in the last quarter of 2019, combined with the relatively higher proportion of external debt made Ghana’s public debt portfolio still vulnerable to exchange rate volatility.

As far foreign investors remain in high public debt structure, Ghana's exposure to capital flight also remain high due to the large portion of public debt held by foreign residents. Non-residents hold about 50% of the Ghana's public debt. Against this background, there is a strong possibility of capital flight if these foreign residents of the country's public debt find other attractive and suitable investments outside the country (IFS. 2019). Aside from the risk to capital flight, Ghana also appears vulnerable to investors' changes of confidence and to fluctuations in the exchange rate. Ghana will face high financing cost on internal and external markets in the context of a strong US Dollar and the rise in global bonds yields (AFD, 2019). The increase in the foreign debt is mainly in the form of non-concessional external foreign currency debt. In light of these elements, Ghana appears vulnerable to investors' confidence and to fluctuation in the exchange rate.

Lastly, Ghana began to face a high risk of debt distress in over the period between 2014 and end of June 2019 as the overall debt vulnerabilities increased and the country's debt service-to-revenue ratio approached high-risk levels. IMF/World Bank have set country specific public debt sustainability threshold for May 2019 under the new debt sustainability framework for Ghana among 92 countries in terms of debt/GDP ratio, Ghana's stringent threshold is set at 60%. Based on these yardsticks Ghana's debt/GDP ratio of 59.2% is classified as high risk of debt distress due to weak fiscal policy, deteriorating financing terms and external pressures, several of the country’s public domestic and external debt indicators deteriorated. Total public debt service-to-revenue ratio was not only on a rapidly increasing path but breached its indicative long-term threshold. Debt service absorbed a large part of domestic revenue, rising from 23.5% in 2013 to 41.6% in 2018. According to World Bank/ IMF (2019), Ghana’s interest burden as at 2018 was the highest amongst its peers in Sub-Saharan Africa, both as a percentage of GDP and as a percentage of tax revenue, while many analysts described as worrying the escalating interest on the country’s debt. Not only was that, but also the country’s medium-term debt trajectories on an upward trend, with serious implications for interest payment obligations. Contingent liabilities, especially from state-owned enterprises and domestic payment arrears were also found to present additional risks to the country’s debt sustainability. While the external debt/GDP ratio declined slightly in the end- December 2018 was 29.6% to 26.3% as at end of March, 2019, an analysis of the country’s debt sustainability by the IMF/ World Bank in May, 2019 pointed again to a high risk of debt distress, with some indicators breaching their thresholds.

9) CONCLUSION.

The paper has discussed the public debt dynamics in Ghana from 2000-2019. In was highlighted that the dynamics in world commodity prices, particularly of cocoa, gold and oil, have predominantly determined the trends and challenges in the public debt overhang and crowding out effects over the period under review.

Ghana’s accumulation of public debt over the past two decades could be directly traced to both domestic and external causes. The domestic causes include poor macroeconomic policies arising fiscal irresponsibility, exchange rate misalignment generally of overvaluation, economic mismanagement and unproductive projects. The external causes include deteriorating terms of trade, rising real interest rates and switching from multilateral and bilateral borrowings to commercial funding over the past decade. The composition of public external debt has changed dramatically over the recent years, with declining concessional funding and increasing borrowing from commercial and private lenders. There is no longer any disagreement or doubt that Ghana is facing a serious and growing debt problem. Public debt as a ratio to GDP has increased from 41.7% in 2006 to 73.3% in 2016; before declining to 57.9% in 2018 after rebasing of GDP in 2018 by September 2019 the ratio stood at 60.55% describe as higher distress debt ratio (GHC 208 billion) and now exceeds the comparable ratios for other countries in the Sub-Saharan Africa such as Rwanda, Senegal, Uganda and Tanzania (IMF/World Bank, 2019).

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The paper further revealed that government's failure to expand its domestic revenue base by diversifying the economy especially the agricultural sector, the country is likely to face liquidity and solvency challenges. Among the discussed rising debt over the past decade, the country's rising debt emanated from unplanned government expenditure, a narrow government revenue base, high and volatile interest rates and exceptionally high government budget deficits.

In general, Ghana's higher levels of debt can result in lower growth in three ways. Firstly, given the finite pool of financial resources, the more the government taps into the pool of loanable funds, the less capital there is available for private enterprises, which pushes up their borrowing cost, essentially crowding out private investment (Spencer and Yohe, 1970). Secondly, if financial markets start questioning the sustainability of a country, they will demand higher interest rates in order to compensate for the increased default risk. Higher interest rates for the sovereign, in turn, get transmitted to the private sector as government bonds are generally considered as a lower bound for interest rates (Das et al., 2010). Finally, Ricardian equivalence suggests that companies and households might anticipate a tax increase when the fiscal sustainability of a country is in doubt, resulting in reduced investment and consumption (Barro, 1998).

The Ghanaian debt crisis cannot be attributed to a single cause. Many factors were responsible. Some were external, such as the deterioration in terms of trade, the rise in foreign interest rates, the easily accessibility to international capital market, appetite for external financing and the changing from concessional to non-concessional financing. However, inappropriate domestic policies—growing fiscal deficits, rapid monetary expansion and maintenance overvalued exchange rates, not commercially viable projects- also played a significant role in the build- up of the debt and inability to service it. The theoretical presumption is that these factors would exert negative effect on the ability of Ghana to service the debt when fall due. Ghana's public debt situation has seriously worsened in recent years and the country now faces a high risk of debt distress and increased overall debt vulnerability. Total public debt-GDP ratio dropped sharply from 113.1% in 2000 to 41.7% in 2006 driven by HIPC and MDRI reliefs. By end-2016, the debt-GDP ratio has risen to 73.2%, and declining to 57.9 % in December, 2018 but increased to 60.55% in September, 2019 and moving towards the ratios recorded in the pre-HIPC period. As a result, total public debt service-to-revenue ratio (including payments on external and domestic debt) has not only assumed a rapidly increasing path but has breached its indicative long-term threshold. Debt service now absorbs a large part of domestic revenue, leaving the country vulnerable to shocks. The country has fallen into a debt trap as real interest rates continue to surpass GDP growth rates, which has forced the country to continue committing more of its tax revenue to service debts. Ghana’s rising public debt is already placing a significant burden on the economy and society, and the country is at risk of falling back into an extended debt trap, with economic stagnation and possible increases in poverty rates, and failure to implement the sustainable development goals (SDGs).

The huge surge in borrowing by the country in recent years was attributed to a number of factors, including the rapid economic growth and poor economic policies pursued in the country (notably 18 between mid-2009 and the third quarter of 2012), low global interest rates leading to lowering borrowing costs, high global liquidity combined with investors seeking risk adjusted returns and diversification opportunities. Greater access to the international financial markets did not only provide additional borrowing opportunity for the country, it has also exposed the country to the vicissitudes of these markets and complicated the debt sustainability problems. With future financing conditions likely to be tighter and costly for the country due to the unusually high exchange rate movements, especially the US dollar, serious concerns relating to the sustainability of the country’s public debt and debt servicing costs have emerged. This calls for strong measures to contain the fiscal deficit, stem the depreciation of the domestic currency against the major international currencies, and control the rising domestic interest rates. Maintaining Ghana’s debt sustainability will also depend on a multitude of factors that include not only strong and sustained future economic growth but also appropriate borrowing conditions, terms of trade improvement, and reducing foreign exchange and interest rate risks, among others. These considerations call upon the government to pay particular attention to the following issues in its attempts at maintaining debt sustainability. First, the government must formulate and implement a prudent, effective and sound debt management strategy that aims at reducing the country's exposure to external shocks, choosing between the financing sources and instruments in a manner that strikes an optimal balance between costs and risks, and deepening the domestic bond market. Second, there is the urgent need to reform and strengthen the institutional arrangements governing debt policy in the country so that the technical expertise and experience required to manage the risks of rapidly growing public debt can be applied. Third, the government must engage in a more efficient borrowing to ensure that funds are borrowed when they are needed and also invested in projects that have a high private or social return so that the economy can grow itself out of debt. Finally, the government must formulate an international debt workout mechanism that will introduce greater flexibility in the use of non-concessional loans and debt limits usually imposed under IMF programs and also seek to promote co-responsibility of borrowing and lending. IMF has recently emphasized that a more ambitious fiscal stance-based on a comprehensive domestic revenue mobilization strategy would help anchor debt dynamics on a clearly declining path, containing financing needs, create buffers for contingent liabilities, and support a stronger external position. Recent paper on Ghana's debt by Professor Bopkin (Imani report, 2019) provided a number of recommendations to help maintain the country's debt sustainability. They include the need for a carefully designed fiscal consolidation measures combined with a more ambitious medium-term adjustment to spur robust economic growth, enhance domestic revenue mobilization and reduce the worsening debt and debt-service indicators. The government is also advised to formulate and implement a prudent, effective and sound debt management strategy, balance the choice of financing sources and instruments, engage in responsible borrowing by using borrowed funds to invest in projects that have a high private or social return, and formulate an international debt workout mechanism to address fully the problems posed by the unsustainable public debt and their implications for effective fiscal management. The rate of increase in interest payment also has to be looked at critically by the government by ensuring that the rate of debt accumulation is reduced and borrowing be done at low rates (IFS, Jan. 2018a; Jan. 2018b; December 2015; June 2015). A serious reprioritization of government expenditure and the pursuance of a stronger domestic revenue mobilization along with a proper financing mix is also needed to avoid jeopardizing the sustainability of the country's debt. IMF reported that the energy and financial sector bail out would drive the debt level to 63.1% by the December, 2019. For this reason, IMF have advised the Government and Ministry of Finance to take necessary steps to strengthen fiscal rules, reduce borrowing and enhance domestic revenue mobilization efforts in order to bring the debt to sustainable levels.

10) POLICY RECOMMENDATIONS

Ghana's large debt financing needs represent a key source of vulnerability, especially on the external front. The large share of foreign currency debt in total public debt at non-concessional terms exposes the country's debt dynamics to foreign exchange shocks and also to a tightening of external liquidity conditions. Given the increasing share of non-residents' investors in the domestic debt market, restoring and maintaining debt sustainability is hinged on a credible and sustained fiscal consolidation to anchor investors' confidence in the economy. While the continued fiscal adjustment under the IMF-Program would help put debt on a sustainable path, fiscal slippages would seriously undermine debt sustainability. This paper makes several recommendations to prevent debt overhang and crowding out effects on Ghana's debt in a more sustainable manner. Going forward the paper recommend that the Government embark on stringent austerity measures that limit both domestic and foreign borrowing, so as to curb the accumulation of high interest payment on public debt.

- First, the government should strengthen domestic revenue mobilization by increasing tax revenues from large companies and rich individuals, ceasing the granting of tax waivers and exemption and increasing the capacity of the Ghana Revenue Authority to ensure that the existing laws relating to issues such as transfer pricing are fully implemented. The government improves its fiscal position, by aligning public sector infrastructural spending with revenues to ensure budgetary sustainability. The digital formalization of the informal structure of the Ghanaian economy must be priority area for government in order to improve and enhance the domestic tax mobilization. The government should stop the lip services in the areas of proper property address system in the entire country and unique identification numbers for the entire population. The importance of a system of property address is probably one of the most underestimated requirements for the development of an economy and its domestic revenue mobilization. The government must explore the ways of broadening the tax net to include, the large informal sector of the economy and also review the current bench mark values systems being operated at the various ports. Bawumia (2010) quoted that “one can imagine what would happen if for example the address system in the USA, UK, South Korea or Japan disappeared overnight. These economies would basically grind to a halt because government and tax agencies depend on residential or business addresses”. It is very imperative for the Government, the Ministry of Finance, Ministries, Departments and Agencies as well as Municipal and District Councils put in place a comprehensive address system as matter of priority in the property taxes as part of domestic revenue mobilization. The National Identification program should be treated as matter of national importance rather than be rushed through as currently being done. The current National Identification Card project will not achieve it set target because the way and manner the project being rushed through out the country. The government should consider the house to house approach so that entire populace could be registered. In certain jurisdictions, the unique national identification numbers are key ingredient underpinning financial and tax transactions in the society, for which Fukuyama (1999) referred to as "social capital" (Bawumia,2010). For example, in USA a person's social security number is so unique for every American citizen. In Ghana and many other developing countries, unique identification numbers on database do not generally exist and therefore making domestic revenue mobilization very low especially with informal sector of the economy. Also, the on -going National Identification System if implemented properly, so that it can rope in the informal sector in the tax net band. In the developing economies like Ghana, the consequences of weak revenue mobilization for example are poor infrastructure that affects the economic growth and development. Everyone can be uniquely identified by a number on a data base of SSNIT and Ghana Revenue Authority (GRA). The introduction of tin numbers by GRA is laudable but it does not cover the entire informal sector of the Ghanaian economy. The 2019 government exercise of unique identification numbers registration must be done professionally as majority of the citizen have been left out, so there is no need for rushing the project through considering the costs of the project and future benefits as well as part of future domestic revenue mobilization strategy. The World Bank Country Director (2019) also stated that the government should broaden the tax base by including comprehensive property tax which could be a major source of revenue for public purse but this could only be achieved through a comprehensive system of property addresses country wide. He also opined that the informal sector is a potential avenue for domestic revenue mobilization.

- Second, the government should maintain and promote prudent macroeconomic principles to curb and closely manage rising debt servicing costs. The macroeconomic environment deteriorated over the period under review, that reflected energy crisis, the constant depreciation in the exchange rate and expansionary fiscal policy all contributed the rising public debt.

  Also promote economic diversification and expand revenue generation to reduce the effect of commodity price shocks on fiscal stability. Develop and deepen domestic debt market to curtail the dependence on external loans and avoid exchange rate risks, while carefully managing the structure of debt.

- Third, governments should face with critical choices in managing public finances which have to be made, failing which the Ghanaian economy suffers the macroeconomic consequences. There is therefore a critical requirement by governments of a commitment to fiscal discipline beyond the electoral cycle. Governments and politicians have to realize that there is no free lunch and political promises have to be paid for. Rather than eating the corn today, it should be planted for the future. This is especially important in the context of Ghana's discovery of oil and gas as there has been temptation as well as pressure to spend the oil and gas revenues as quickly as they are realized or mortgage yet to be realized revenues (Bawumia, 2010).
- Fourth, the government should undertake a public debt audit by establishing an independent Debt Audit Commission, made up of domestic and international experts and give it access to all the information needed to undertake the audit as well as analyzing all the terms of loans and their costs and benefits IFS (2018). The Debt Audit Commission should also propose new accountability mechanisms for government and lenders to ensure that loans contracted are productively utilized. The Debt Audit Commission

should be enshrined in the 1992 Constitution or the Auditor General must audit public debt including domestic and external debt to ascertain it proper usage of borrowed funds. Institute of Fiscal Studies (2015 & 2018 b) advocated that the Debt Audit Commission should be established to ascertain the usage of borrowed funds. The uses of borrowed funds are typically high of a reason if it used to finance project that does not raises a country's potential output and therefore has no ability to repay the loans in the future (World Bank, 2017). Quartey (2017) posited that the Minister in charge of Monitoring and Evaluation set up mechanism to ensure that project evaluation and completion reports for all capital expenditure projects including donor funded projects as well as those funded under borrowed fund are made public and possibly verified competent audit firm or Auditor General. In addition, Ghana should continue to seek both external and domestic funds and ensure that they are invested in productive and economically viable ventures rather in unproductive activities which cannot generate the needed revenue to service the debts (Quartey, 2017).

- Fifth, Ghana's rising interest cost cannot be contained through debt re-profiling as the current debt management strategy seems to suggest. The biggest gain to the re-profiling of the public debt is the extension of the maturity periods which would give the country a breathing space to mobilize funds to pay the debts. Interest gain, if any, will depend on the rates and maturity periods of the debts before and after the re-profiling exercise since the size of the debt itself would remain the same. Proactive debt management strategy is therefore needed to reduce interest payments and mitigate risks to the public debt profile. Government therefore needs to formulate an annual borrowing plan, improve treasury management and forecasting, enhance debt reporting, and strengthen operational risk management. To attenuate the risk of contingent liabilities, the government needs to monitor closely all debts issued by state agencies, sub-national authorities, and state-owned enterprises. Implementation of interest rate hedging which would allow for enhanced predictability of debt-service will also help in reducing the rising interest costs.

- Sixth, reversing Ghana's debt dynamics will require a credible and sustained fiscal consolidation, underpinned by strong revenue mobilization and prioritization of government expenditure in favor of capital and social spending. Paying serious attention to revenue mobilization should therefore be the number one priority of the government. A revenue mobilization strategy that seeks to strengthen revenue administration, improve tax compliance, help combat abuses and corruption, and increase the fiscal space for public investment and social spending is what is urgently needed.

There is the need for a strong revenue mobilization effort, including a broadening of the revenue base to include the informal sector, reviewing the extractive industry fiscal regime, removing exemptions and plugging leakages, and strengthening the machinery for tax collection and administration. The collection, use and accountability of internally generated funds by public institutions and agencies should be given serious attention. The assessment, collection, use and accounting for oil revenues must also be subjected to regular public accountability. According to the recent Imani's public lecture (2019) by Bopkin argued that the government to reconsider the reduction of the high volume of tax exemptions to help in reducing country's borrowing and subsequent debt servicing. While the government's debt re-profiling initiative aimed at extending the maturity period of some short-term debts and maintaining a prudent degree of risk is commendable, one should not lose sight of the associated debt servicing costs. At the end of the day, the crucial factor is the cost of servicing the debt (interest payments) over the maturity period, which may not necessarily be cost-effective. Ongoing efforts to improve debt management and deepen the domestic debt market should also be supported by improved cash management to better align primary market operations with cash flow needs. Careful planning to mitigate external refinancing risks is also needed. At the same time, the increasing focus on liability management operations by the government should not overcome the need for fiscal adjustment. Increasing the participation of non-resident investors in the domestic bond market is also laudable because of the foreign currency inflows that they bring to shore-up the country's reserve buffer. But as pointed out by some analysts, such investments need to be carefully managed in order not to over-expose the economy to external shocks as sudden withdrawals can impact negatively on the exchange rate stability.

- Seventh, although greater access to the international financial markets has become available to Ghana, it has also exposed the country to the vicissitudes of these markets. In addition to the macroeconomic challenges posed by large and potentially volatile flows, the sizable external foreign currency debt of the country makes it vulnerable to swings in international exchange rates and also to speculative currency attacks. A major decision that the country faces is whether to fund investment projects and budget needs from domestic or foreign sources. The choice between domestic and foreign loans involves a trade-off between costs and risks. The strategy therefore is to choose between domestic debt and foreign debt that strikes the optimal balance between cost and risk. Government has to assess whether the higher interest rate on domestic debt represents a fair compensation for insurance or a premium for the illiquidity of the domestic market or the exchange rate depreciation that could occur. Since the complexity of maintaining debt sustainability has increased together with the sources of financing and the types of instruments that the country chooses to employ, the government should concentrate on deepening the domestic debt market, broaden the investor base and issue fixed-rate long-term bonds denominated in domestic currency to provide budget insurance against both supply and external shocks.

- Eighth, the decision on how to use borrowed funds is important to ensuring debt sustainability. At all costs, funds raised by issuing debt should be invested in projects that have a high private or social return. Clearly, debt accumulation is unlikely to be sustainable if loans are used to finance public or private consumption, with no effect on long-term growth. The fact is that development cannot be justified by high and unsustainable public debt. The country's debt can only be reined in through sustained fiscal prudence to help reduce borrowing. It is important therefore that loans contracted are used to develop the economy to enable it 'grow out of debt.' It will be a fatal mistake to use loans to fund recurrent spending or refinance debts that were used to fund recurrent spending that did not have a direct bearing on growth. But there are conditions under which even debt used to finance productive investment could turn out to be unsustainable. This happens if the ex-post returns on a project end up being lower than the interest and principal debt repayments, and should therefore be guided against very carefully.

- Ninth, Ghana should acquire public debt for very high priority projects and programs that are well appraised and self-sustained that could contribute positively to the economic growth of Ghana. Projects selected for commercial funding must be preferably had to: (i) be commercially viable in their own right (ii) yield a high enough economic rate of return to service the underlying debt and (iii) be growth catalytic by removing critical bottlenecks in the economy (Bawumia, 2010). Given Ghana's high debt vulnerabilities, the government should continue seeking as concessional terms as possible for external loans from multilateral and bilateral development partners. Non-concessional loans should remain exceptional and assessed on loan by loan in terms of national developmental agenda.
- Tenth, increasing public savings require political will and determination on the part of Ghanaian governments. As for public savings, the key to any increase must be a reduction in fiscal deficits. Boosting public savings requires a willingness to increase government revenues, reduce expenditures, and decrease the losses

of state-owned enterprises. Each of these steps requires political willingness and courage on the part of government and the oppositions. Achieving higher revenues may require the inclusion of the informal sector in the tax net, significant revisions in tax laws, and in revenue administration and enforcement, expenditure cuts and tighter systems for monitoring of government expenditure. In addition, governments will need to be willing to limit certain popular types of programs, such as subsidy payments and capital outlays for new projects, in order to preserve funds for programs more closely related to increasing economic growth (Greene and Khan, 1990). As part of restoring debt sustainability, the government will have to limit hiring of public sector workers, election year wage increases and elimination of subsidies for utilities and petroleum products. Also, government should improve on its revenue by cracking tax evasion, rationalized tax exemptions and expand tax net by formalizing the informal sector of the economy.

- Eleventh, the government should continue with diversification of the economy so as to minimize the impact of external shocks, particularly in terms of rampant fluctuations in commodity prices. The Ghanaian economy require a serious economic transformation with the development of the agricultural sector as the main focus. The old agrarian mono-culture cannot support the economy and must also avoid the Dutch diseases as experienced by the Nigerians for some time past. As the backbone of the Ghanaian economy, agriculture must receive special funding for agricultural sector, if we are to stop the importation of rice, maize, palm oil and vegetables from Europe and other West African countries. As China's example illustrates, improving agricultural productivity is a crucial part of any successful development strategy. Although part of the reason for neglect has been external (for example, periods of decline of commodity prices) the stunted growth of the agricultural sector stems largely from ill-defined government interventions and low levels of budgetary allocation to the sector. Serious reform of the agricultural sector must begin with the nation's land policy. Also, industrial salt mining should be seriously considered in view of the huge oil findings in Ghana and the government should seek foreign direct investment or strategic partners from South American countries like Brazil that had supplied industrial salt to Nigeria over the years to a tune of US$ 3 billion. Cashew nut and Soya beans are other agricultural products that could be developed and exported to China looking at the current trade war between China and United States of America with a potential market exceeding US$ 10 billion. Government must seek strategic partnership in the areas of soya beans and cash nut development instead of the illegal mining activities which has been destroying the environment. Future borrowing could be specifically used to support to small scale farmers in areas of high yield seedling development, proper irrigation facilities, access to credit, storage and warehousing facilities, accessible roads to farming areas, guaranteed prices as done for cocoa farmers and provision of research and extension officers in the farming areas. Borrowing to support the agricultural sector could be considered as commercially viable in their own right and believed that the sector could yield high economic rate of return that has capacity to service the underlying debt.

- Lastly, among the recommendations is that Ghana should consider on the debt side by initiating a constitutional amendment that establishes a debt limit as a percentage of GDP and a period to comply with from current level. The recent Ghana's public debt to GDP ratio of 60.55% should prompt the country's legislature to enshrine as debt capping or debt limit in the 1992 Ghana's Constitution as done in other jurisdictions such as Kenya (50% of GDP) and Germany (60% of GDP). To ensure debt sustainability, Ghana government budget also put a ceiling on the total public debt to GDP could be put at 50% to be in consistent with Ecowas protocol and the same level as pertains in some Sub-Saharan Africa countries. At international level, the IMF initiated a debate regarding the debt limits policy that has to be applied to all members

(IMF, 2013). The IMF Directors concluded that establishing a unified debt limits framework encompassing all borrowing, regardless of its terms, would provide a more solid basis for debt sustainability of Member Countries, without significant results by now. The IMF re-launched discussions in 2014 on Sovereign Debt Restructuring Mechanism, but the debates and controversies around this proposal stand still (IMF, 2014a). Most countries have no public debt limits and the few what have one are raising it if needed. The USA and Denmark have similar legislative mechanisms which set ceilings for government borrowing. At least in the case of USA, the debt-ceiling crisis and the lawmakers disputes are well known, the ceiling suspension ending with the automatic reset of ceiling, as happened in 2014 i.e. to 17.2 trillion USD, by 512 billion USD higher than the previous year (the fifth ceiling increase since August 2011), the public debt outstripping 100% of GDP. Denmark, usually considered as model for how to manage the public debt, has doubled the debt ceiling in the post-crisis year 2010 (from 1000 billion DKK to 2000 billion DKK) the public debt-to GDP standing currently below 50% (Eurostat, January 2015). Some countries under regional organizations, as the European Union, have a target of keeping the public debt below 60% of GDP, but this limit is not binding, being applied, along with other criteria, for membership accession, most of EU countries (16 of 28) outstripping in fact this threshold. A special comment has to be made for Poland, the single European country which has a constitutional limit of 60% set for the public debt-to-GDP, and two legal limits set at 50% as warning level and a threshold of 55%, which, if crossed, the next budget must start to fall. In fact, due to this mechanism, Poland succeeded to return from 56.6 debt-to-GDP ratio in Q32013 to 48.6 in Q3 2014 (Eurostat, 2015). Some other countries have set targets that cap the public debt based on limiting expenditures to expected revenues adjusted according to the state of the business cycle (Switzerland) or on limiting the structural deficit (to 0.35% of GDP in Germany, Austria having a similar target) or on achieving a net surplus over the duration of the business cycle (1% in Sweden, Chile using also this type of target). In several countries (Sweden, Canada), the Government is authorized by the legislative to borrow a fixed amount of money for the fiscal year (Austin, 2008, Huffington, 2011). Ghana should have constitutional limit for the public debt /GDP ratio by amending the 1992 Constitution.

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