Domestic Debt Management in Africa: The Case of Ghana

This report analyses the development in public domestic debt in Ghana, and its impact on the economy for the period 2000 to 2009 with the objective of looking at the institutional framework regarding the budgetary process, uses of public funds and contracting of loans and making policy recommendations for improving the management of the debt. The study takes a critical look at the legal framework, structure of the domestic debt, its impact on the economy, the sustainability of the debt and the extent to which the discovery of oil and gas will impact on internal revenue generation leading to reduction in budget deficits. It also provides an assessment of the nature of the relationships between different policy instruments for domestic debt acquisition.
Third, domestic debt has largely been ignored in the vast empirical work on inflation. In fact, domestic debt (a significant portion of which is long term and non-indexed) is often much larger than the monetary base in the run-up to high inflation episodes. Last, the widely-held view that domestic residents are strictly junior to external creditors does not find broad support. Domestic debt often builds up in the aftermath of external defaults. The case of pre-communist China is a caricature of the typical post-default trajectory. China’s government depended almost exclusively on external debt until two major defaults in 1921 and 1939, with public domestic debt exploding in the aftermath of both incidents. By the mid-1940s, China’s government relied almost exclusively on domestic debt. Third, domestic debt in Africa is gradually rising and increasingly consists of marketable debt. Domestic capital markets have been deepening as international investor interest has grown. Greater reliance on domestic resources may allow countries more policy space in implementing their development priorities, as financing through official development assistance is often tied to policy conditionalities. Fourth, there is a wide range of complementary modalities of development finance, which, if effectively tapped, may contribute to meeting Africa’s financing needs without necessarily affecting debt sustainability. Such modalities include remittances and public-private partnerships, as well as curtailing illicit financial flows.