

BANK OF GHANA



**TRANSCRIPT OF MPC PRESS BRIEFING HELD ON JULY 23, 2018 IN THE MPC
CONFERENCE ROOM, BANK OF GHANA, AFTER THE 83RD MPC MEETINGS**

PUBLIC

**TRANSCRIPT OF THE MPC PRESS BRIEFING
HELD ON MONDAY, JULY 23, 2018**

Following the Monetary Policy Committee (MPC) press briefing on Monday July 23, 2018 by the Governor, who is also the Chairman of the MPC, the Press sought clarifications on a number of issues. Below is an edited transcript of questions by the Press and responses by the Governor.

Questioner: *There has been a lot of talk about the Cedi's performance in recent times despite the fact that economic fundamentals have improved significantly. My understanding is that even though the Cedi has depreciated recently against the dollar, it is appreciating against other major currencies, pointing out that in trade-weighted terms, the Cedi's performance is in line with economic fundamentals. Is my understanding right?*

Governor: I think you are right. The strong fundamentals that we have seen in the economy in terms of downward trend in inflation, strong exports outturn, and all the work that has been done to stabilise the budget with fiscal consolidation, do not suggest that you would have a currency which would suddenly depreciate. So yes, the fundamentals have been strong and this is why we are showing you the graphs that we have projected for your observation. I think the charts probably explain this development better than anything else and shows that currency volatility is a problem that has impacted almost all emerging and frontier markets that are in a sense open to international capital markets. We have also opened up to international capital markets because we have portfolio investors investing in our local currency bond markets. So when there's a tightening of monetary policy in the US for example, the interest differentials between their assets and ours are narrowed and therefore you may find some investors who have invested in our domestic bonds reallocating that investment into bonds in the advanced economies and that process of disinvestment before maturity can exert pressure on the exchange rate. This we have seen happen in India, Indonesia, Turkey and South Africa and it has happened in Ghana. What is the lesson? The lesson is we have to try to mobilise domestic resources to finance our budget and this is why domestic revenue mobilisation becomes very important. We cannot continue to rely on foreign-financed bonds to finance our capital expenditures. We have to look locally and mobilise revenue from domestic sources. So yes, we've done everything in terms of strengthening the portfolio of international reserves that we had. We've seen improvement in the fundamentals, but then you can have these sorts of sudden reversals in capital flows which impact the exchange rates irrespective of the fundamentals that have been created. And I think that reducing that vulnerability going forward would be important.

Questioner: *Wouldn't it be advisable at this time, in order to engender confidence in the Cedi to start using trade weighted basket to track the Cedi's performance rather than just the dollar as the currency of intervention, to have a more practical way of seeing how the Cedi is performing?*

Governor: I think the trade-weighted exchange rates are important in trying to assess competitiveness of the economy, so that addresses a different issue in terms of making a judgment as to whether your exchange rate is competitive relative to your trade partners. It is a more complicated way of deriving exchange rate performance than just looking at the nominal exchange rate which is easy for everybody to see. So in Bank of Ghana, we compute the trade-weighted exchange rate also to assess the competitiveness of the economy.

Questioner: *I was going through the IMF's fifth or sixth executive board's review of the promise of our economic programme, and I saw that apart from our 4.5 percent fiscal deficit, government has committed to the equivalent of 1.9 percent of GDP to resolve financial stability issues which I think includes, for example, the bonds issued by government for GCB. It has not been mentioned anywhere in any public document concerning our fiscal consolidation. I want to know if the 1.9 percent is on commitment basis rather than a cash basis, and under the current circumstances, is government still continuing with the plan to commit the equivalent of 1.9 percent to GDP to resolve financial stability issues?*

Governor: Yes, that is what you saw in the Fund's review in spite of the fact that the deficit is 4.5 percent. There's a special realisation that the government may need to raise additional resources for the financial sector issues. That's not part of what would be used to assess the fiscal performance for 2018. It is important to make that difference. The government is going to be assessed on the basis of the fiscal deficit target of 4.5 percent, excluding costs that are associated with the financial sector.

Questioner: *The last time we met we talked about the Purchase and Assumption agreement – the one that took over the UT and Capital Bank – I want to know if per the bonds that were issued, our understanding is that it would be borne by the tax payer. And then based on what you told us the last time, we know that some members of staff of the Bank of Ghana were called by EOCO or some other security agencies and I want to find out from you what the update is on that one.*

Governor: As you said, this is going to be borne by the tax payer through the issue of the bond that was recently issued to GCB, which is GH¢2.2 billion, and your question is whether the people who were responsible for creating that problem should get away with it. I believe that's the import of the question and all I can tell you is that the report is with the EOCO and they are reviewing it.

Questioner: *I want to know if you are also aware of the number of Microfinance and Savings and Loans companies that are unable to pay depositors' monies when they go for withdrawals. If you are aware, what strategies are you putting in place to curb that?*

Governor: I think that this is a very important issue. We all regret very much what happened over the weekend at a branch of Midlands. It shouldn't have happened. Violence is certainly not the way to go. We recognise that we have some issues in the Specialised Deposit-Taking Institutions (SDIs) sector, and these are the sectors where the poorest and most vulnerable in our society place their deposits so it is an issue that we have to deal with to strengthen the SDIs and make sure they are well capitalised and depositors are confident in putting their monies into some of these microfinance and savings and loans companies. The government is looking at the Ghana Deposit Insurance Corporation to provide insurance for small savers such that when you have difficulties with these institutions, they can fall on the deposit insurance for cover. We are also looking at reforming that segment of SDIs, specifically in ways that can strengthen and improve efficient in their operations in order to protect depositors. In terms of the number that are not being able to meet depositors' demands, I don't think that is the key issue for now. The key issue is that we are working to strengthen their processes that would engender depositor confidence in the sector and the government is prepared to find the resources to enable us to do these reforms.

Questioner: *On the recapitalisation of Microfinance institutions, we know the deadline elapsed last month. What is their status now? Are they going to have an extension? What is happening to them as we speak?*

Governor: The recapitalisation of the MFIs is part of the reforms that we are trying to introduce to strengthen capacity and improve confidence in that segment of the financial sector.

Questioner: *On the Single Treasury Account, I want to know the compliance level of the banks and if you could tell us how much has been put into that account.*

Governor: There has been quite a bit of progress in that area. Most of the banks have complied. One or two are yet to comply but we are quite satisfied with the progress of the Single Treasury Account.

Questioner: *May we please know in no uncertain terms the financial status of the 34 banks we have currently? You mentioned that six of them have met the minimum capital requirement. May we know, if you can tell us their names, and then what the status of the rest really is?*

Governor: The data that I have shows that we have six banks that have met, we have four banks that are most likely to meet, and we have five banks that are likely to meet. So straight away you can see that 15 banks are nearly there. Six, we know for sure; four are almost there and five are likely to be there. So at the very least, we would have 15 banks by the end of the year. And then after that we have those that are likely to merge. You know of three of those already as GN Bank, Sahel and Premium banks have announced that they intend to merge. And then there are the rest that are at various stages of recapitalisation, and we are confident that

most of them would work at meeting that requirement. The option to merge obviously simplifies it for everybody.

Questioner: *The Bank of Ghana's stand on ADB is very instructive, I think it sends a signal to banks that are going to recapitalise. Based on that, are we going to see a system or a stage where BoG will try to find out or authenticate the source of capital that the banks will use to recapitalise? Regarding the decision to annul the transaction, are we using that as an example to prevent a future occurrence, especially, given that banks are recapitalising now. Are we going to know how they are bringing in their funds, who is bringing them, who's connected to whom or otherwise, based on what led to your decision to annul that ADB transaction?*

Governor: I think you're mixing the issues up. The issue of bank capital had to do more with the UT and Capital bank issue at the time that they transformed from savings and loans to become banks. Another issue is whether they had the required amount of capital. That's where the issue of capital verification becomes very important. So yes, there's an issue with the way the central bank verifies capital that is used to grant bank licenses. This is one of the issues that we flagged regarding Capital Bank and UT Bank. It is not the same problem with ADB. ADB was an IPO that some people took advantage of, that's all. It had nothing to do with whether the capital was there or not.

Questioner: *What is the status of uniBank as we speak? And when would the report of the administrator be made public?*

Governor: Let me say that we have received the 90-day report from the administrator and we're studying it.

Questioner: *I understand that the shareholders of uniBank have written to you on their recapitalization plans. Can you share with us some of the things they wrote to you about so that at least we can all be informed?*

Governor: Regarding the issue of the shareholder, I think you already published all the details in the Daily Graphic today about a deficit of GHC4.9 billion that the shareholders say they have enough capital to fill. You published it, so it's out there, I am not saying it.

Questioner: *We are aware that Belstar has rejected your statement that emergency liquidity support extended to uniBank was used to purchase shares in ADB. Can BoG provide evidence to back its claims?*

Governor: I think that's very unfortunate because the press release was very clear. Belstar and Starmount could've bought all their shares directly but they chose to buy some directly and went behind SIC and EDC to buy additional shares. Why didn't they buy all the shares directly? It's very clear that they were up to something. Secondly, liquidity support is given to banks that

are in tight situation. You can have deposit of a billion cedis but you become illiquid because those deposits have been used to do other things that they are not supposed to be used for. That's why banks come to the central bank for liquidity support, and that's why it's very easy to see that it's the Bank's liquidity support that was used to finance those purchases as a result of the bank being illiquid. I think the press release was very clear, so let's not spend too much time trying to raise issues that I think are very clear to everybody.

Questioner: *I want to know the implications of the new tax system on monetary policy. Looking at the 2.5 percent NHIS tax levy, and then 2.5 percent on GETFUND, this would obviously be passed on to the final consumer, so what implications does it have on inflation? There would certainly be some pressures and I would like to know if this presents any risk to inflation.*

Governor: I see these types of price adjustment as similar to what we saw on transport prices, which the Committee adjudged not to be inflationary. We do not expect a second round effect to lead to a sustained increase in the price level. Similar to the assessment on transportation prices, this onetime tax adjustment should not necessarily lead to an inflationary spiral and this is the assessment that we have made.

Questioner: *You said our NPL is 22.6 percent but the IMF has raised some concerns with regards to this that if prudent steps are not taken, the rising of our NPL could hamper credit growth and investment and create some contingency liabilities for government. What's your position on this?*

Governor: Rising NPLs do not help but fortunately for us, most of the NPLs that we saw in the sector are legacy NPLs relating to energy sector problems. So we are not beginning to see new non-performing loans increasing which would really negate, as you rightly put it, all the efforts that are being put into recapitalisation. So yes, we are not expecting to see that sort of impact. The whole idea is to recapitalise the banks and strengthen their risk management systems so that going forward, the banks are better able to access projects and ensure that these are projects are viable and the loans can be paid back.

Questioner: *You mentioned in your statement how the trade war between China and the US is threatening global trade, specifically, for us in Sub-Saharan Africa. What would be the effect if this trade war escalates beyond this point, on our economies, FDI attractions from both regions and so on?*

Governor: I think you know the answer to the question you're asking, because we've already said that all of this may impact the growth outlook if there is a slowdown in the advanced economies. The channels to developing countries and sub-Saharan African countries are through trade partner relationships. These are the people who demand our exports so the demand for exports would be affected if these countries slowdown. So the transmission to African countries such as ours is through the trade channel, and this is why it is important for us

that the global economy should continue to remain strong so that demand for our exports will continue to remain robust.

Questioner: *Any time this issue about Cedi depreciation comes and it's related to trade, the issue about our trading with China also comes in. I remember that there was some preparation for us to have the RMB as a trading currency here. Taking a cue from the IMF, what is the status of that preparation as we speak now?*

Governor: The Bank of Ghana, as you're aware, had a stock of renminbi to meet the demand for traders that go to China to buy goods. Unfortunately, even those who were buying goods in China preferred to carry dollars because the manufacturers in China themselves were asking for dollars. So it's a very complicated matter which we're looking at and trying to, maybe, join the Chinese payments arrangements. This is one of the things we're looking at. If we can have access to the Chinese payments gateway, we'll be able to encourage more correspondent banking relationships with some of the Asian commercial banks and thereby channel more of those transactions through the banks rather than having people carrying money on themselves to import from China. It's an area that we need to do some more work in tying our payment systems and international trade arrangements through the Asian commercial banks, and we're looking at it.

Questioner: *The minimum requirement you mentioned comes up to 15.7. With regards to the loan portfolio you mentioned the other time, and with the merger of GN bank, Premium and Sahel bank and ADB, how will this affect the credibility of the loan portfolio once the banks have satisfied the minimum requirements?*

Governor: I think your question has to do with Capital Adequacy Ratio and the NPLs impacting on capital and the loan portfolio of banks. Yes, we want to work hard to ensure that the loan portfolios do not show very high non-performing loans. Looking at the interest rates obviously would be key in preventing the rising NPLs from getting more complicated.

Questioner: *The US ambassador, when he was hosting a programme, indicated that GN Bank has taken over a bank in the US and he was proud of that. Suddenly, GN Bank is merging with two other banks. What are the implications and what's your comment on that?*

Governor: GN Bank announced the merger with two other banks, Premium and Sahel. We are quite glad they were able to meet the scrutiny of the regulators in the US to be able to acquire what I believe is a community bank somewhere in Chicago, but at least, they were able to get the scrutiny of the regulators right.

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