

BANK OF GHANA



TRANSCRIPT OF THE MPC PRESS BRIEFING HELD ON MARCH 26, 2018 IN THE MPC CONFERENCE ROOM, BANK OF GHANA, AFTER THE 81ST MPC MEETINGS

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Following the Monetary Policy Committee (MPC) press briefing by the Governor on Monday, March 26, 2018, the Press sought clarifications on a number of issues. Below is an edited transcript of the questions and the responses by the Governor during the session.

Questioner: *What is the true state of the banking sector? If you look at the numbers compared to the previous year, there isn't that much change in the NPLs and assets in terms of growth. We had an interview with the Finance Minister and he said that he is confident about the team in the Bank of Ghana and they would be able to take certain bold decisions and look critically at all those things. Are you at this stage prepared to take those bold decisions in cracking the whip?*

Governor: As you rightly put it, I addressed the state of the banking system clearly the day we appointed an administrator for uniBank, and today the Press Release has provided an update. Broadly, if you look at the banking system, it is well capitalized, still profitable and liquid. That is the broad assessment that the Monetary Policy Committee has made. However, this does not mean that there are no pockets of weaknesses or vulnerabilities. Obviously, these are average numbers, so within the broad averages there may also be a few weak points. And we've already made these assessments in the past, about the need for banks that do not have enough capital to rebuild their capital. And if you look at the latest numbers, we are reporting a Capital Adequacy Ratio of 19 percent from around 16 percent, so there's a lot going on.

The banks are rebuilding their capital buffers and becoming more resilient compared to what the situation was six months ago. And this development is important for the banking system. As the banks continue to increase their capital towards meeting the new GHC400 million minimum capital requirement, we expect that banks' resilience would firm up. So broadly, we should take it that yes, we have had some challenges but reforms are ongoing, capital buffers are growing, and we should expect to see a stronger banking system by the end of the year. That is the message.

Questioner: *From your statement you said NPLs have remained unchanged since December 2017. I want to know how much of it is due to connected lending practices as you noted in the state of the banking sector press release.*

Governor: It is important that at least the NPLs ratio remains unchanged and not increasing. We also provided NPLs net of loan-loss provisions, which currently stands at 10.9 percent – about half of the headline NPL ratio. This indicates that a significant portion of the non-performing loans are legacy debts and so it's a question of time and they would have to be written off. I am told that our legal systems are so complicated that it could take four years to write off some of these loans, but the most important thing is that NPLs net of fully provisioned loans is near single digits, so we are making progress.

I cannot tell you that the NPLs were due to connected lending but I can tell you that the NPLs are highly concentrated. For instance, the top 10 non-performing loans account for almost 41

percent of the total non-performing loans stock. In other words, if you resolve just the top 10 of the loans, you would be able to resolve the NPL problem.

Questioner: *I want to know what has been the impact of ESLA on NPLs.*

Governor: ESLA helped reduce the public sector portion of the non-performing loans, but not by much, because a lot of the energy sector loans were already classified as performing loans so it didn't have such a big impact on the NPLs.

Questioner: *On the Ghana Reference Rate (GRR), are we going to start implementing it from next month?*

Governor: Let me say that the GRR is not a Bank of Ghana imposition on the banking system. This is a model that the Ghana Association of Bankers together with the Bank of Ghana has agreed on, as a benchmark for lending rates. The GRR comprises the 91-day bill rate, interbank market rate, and the monetary policy rate, and is computed on the basis of some weighting. Depending on who you are, you might weigh each rate differently but they have agreed on a set of weights. And the plan is to start releasing the Ghana Reference Rate in the first week of April.

The GRR is therefore likely to bring a lot of transparency into the setting of interest rates in the banking sector. However, I still think that it would not shift our focus from the underlying cause of high lending rates, which is related to the cost of banking and the need for banks to be more efficient in their operations. This would go a long way to reduce the costs associated with providing banking services, as well as the importance of economies of scales in being able to help banks lower lending rates.

Questioner: *If we look at the data you released ahead of this press conference, total advances went down by 0.6% and if my memory serves me right, it is the first in almost ten or more years. The same applies to total deposits. Even though it grew, if you look at the annual growth, it is the lowest in almost ten years. What exactly accounts for this? And what is the strategy put in place to ensure that we reverse it and then get money to fuel the growth that we all want.*

Governor: I think one has to be careful about the interpretation of the monetary aggregate numbers. First, we are in a disinflation process and as part of that, you expect monetary aggregates to slow down. We have also been through a period in which the exchange rate has been very stable, so all foreign-related assets in the banking system would grow at a slower rate. So lower inflation, lower exchange rate depreciation, all of these things would contribute to slower growth in banking data. Quite apart from that, we have also lost two banks so the monetary survey is covering 32 banks instead of 34. Therefore, there are a lot of underlying factors which explain the slower growth rates in the data. The interpretation has to be done carefully.

Questioner: *At your last press conference, you indicated that when you took over or assumed office as the BOG Governor, you noticed that about nine banks were in distress and you started work to do some reforms. Since then, we have seen two banks collapsed, and then just last week you took over uniBank. Can you tell us the condition in which the remaining six are?*

Governor: In response to a previous question I had said when I took over; there were nine banks that were having difficulties. I went back to that issue because it is important to stress that what we are seeing is a legacy problem. So that's why we always go back to the nine banks. We did not create the challenges in those nine banks; we came to meet this legacy problem which emanated from so many factors, including weak economic management. So yes, there were nine banks, two had to be liquidated, one has been put into administration and I have just given you the latest state of the banking system, which is being strengthened and the resilience is improving. I have also talked about the fact that the Capital Adequacy Ratios are going up, so there is some additional effort by banks to raise their capital and that includes the other 6 banks. Obviously, they must be the ones that are contributing to the increasing resilience that we are seeing.

Questioner: *Is there a stipulated time given within which you should inform distressed banks prior to the takeover and if there is, did you satisfy that time requirement? In the statement you read, you said that if uniBank is able to recover within six months then they would be handed over to private ownership. Now, that leaves room for some speculations. Will the current owners of uniBank be given the first right of refusal when their books become better? When you want to hand over to private ownership would they be given the first right of refusal?*

Governor: Let me tell you the background to the uniBank story, because uniBank was one of the nine banks and it is a long drawn out process. The Bank of Ghana went a great length to provide details in the press release where we started off with uniBank's CAR at 4.75 percent sometime in April or May, and we thought that we had brought them all the way up to 7.7 percent as of August, and then by the time we went back to review their books in October, the CAR was heading towards negative territory and by December, it had worsened to negative 24 percent. And then afterwards, we did not receive any returns from the bank. The chronology of events provides enough notice. We engaged uniBank for nearly eight months.

Regarding the second part of your question as to whether the owners would be given the first right of recourse after six months, I think it is too early to make an assessment. The administrator has gone in, we would have to wait for the findings and subject to that, all kinds of issues would be dealt with.

Questioner: *I took a look at the Economic and Financial Data that was published last Friday and I realized that the data on the government's fiscal operations was not updated. It is still that of November 2017 and we are in the first quarter of 2018. Can't we get the fiscal deficit as at December 2017 so that we know whether the fiscal consolidation is on course or not?*

Governor: In reading the press release, I gave you an idea about the December 2017 fiscal numbers and if you read the January 2018 MPC press release, we had been bold enough to say that the deficit for 2017 would be within target. At this press briefing, the additional information that we have provided, is to confirm that the deficit was provisionally estimated at 6 percent of GDP, below the 6.3 percent target.

Questioner: *We talk about the public debt and when we look at it in relation to the GDP it has declined but in nominal terms the debt is rising. I just want to know whether the cedi depreciation has something to do with it, especially looking at the external component of the debt stock.*

Governor: Obviously given the stability that we have seen in the cedi, the increase was not due to cedi depreciation, and I am glad you added that the increase was in nominal terms, because if you compute it as a percentage of GDP, the total debt stock has declined.

Questioner: *I just want to find out what is the direct cost of the bail out by the central bank of the failed banks?*

Governor: This question on the cost of bail out keeps coming. I tried to put this in context, that we had a problem with nine banks. So, Bank of Ghana was already supporting these institutions with liquidity and that was a cost to the Bank. In the case of both UT and Capital banks, the Bank of Ghana spent money to try to keep them afloat for at least a year and a half – before we pulled the plug so that’s the cost to the central bank.

Now, if you would recollect, we also had to do a P&A transaction with GCB Bank and that P&A transaction required that a gap should be filled. So that’s another cost, this time to the government. But, I do not want to put a number on it because the process has not ended. Pricewaterhouse is still carrying out the receivership process. At the end of the receivership process, we would know what the cost of that process is, because depending on the assets that the receiver is able to realize, some of cost would get paid. Bank of Ghana would get paid and the government would also get paid. I am not sure whether the shareholders will have anything. So it’s very difficult to throw out a number now and say that this is the cost of the intervention when the process is still ongoing.

The same type of analysis would have to be done in the uniBank case. We have to wait till the administrator finishes and how that whole issue is resolved and then at the end of the day, depending on how much assets we are able to realize, we would know what the true gap is and what the cost to the Bank of Ghana or the state would be.

Questioner: *My question has to do with uniBank. I don’t know Mr. Governor, whether you are so much on social media. There are a lot of issues on social media and I know they will play out about the efforts uniBank has made to sort out their problems, especially with regards to T-bills that they have – I mean monies with government contractors and what have you. Are you still negotiating? The impression is that they are still talking to you and you are still negotiating.*

Governor: In terms of whether we are negotiating with uniBank, there’s nothing to negotiate. We’ve been in discussion with uniBank, as I said for more than six months now. The issue about the bank having T-bills is part of the repo arrangement. They cannot borrow from the repo market without collateral so they bring Treasury bills to get the repo facility. Apart from the repo facility, they had emergency liquidity support from the Banking Department which is not a treasury function. They also had some payment certificates, right? So we had to do the math. When we put all of these things together, add their T-bills, add their payment certificates, and look at how much they have taken on the repo side, how much they have taken on the banking side, what is the assessment going forward? All of that was done, so the decision that we took was based on the basis of full information on the state of uniBank.

And then on the issue of whether we are negotiating, no we are not. The decision has been taken, the management of uniBank was informed, the Director of Banking Supervision Department, Mr. Gyasi, personally informed the Chairman and the MD of uniBank that we are putting an administrator in the bank.

Questioner: *As you presented your speech, I had a bit of what I call déjà vu. Why do I say that? When additional oil hit our accounts some time in 2010/2011, the economy did well and we recorded single digit inflation for quite a while, for almost two years. And I see the same thing happening now, and your target of between six to eight percent is very much achievable as I see and the additional oil making growth and debt and the deficit look quite positive. How realistic is what we are seeing giving that when this additional oil is exhausted in a way come 2020/2021 this cycle will not begin again?*

Governor: Well, you are right. I mean we are seeing higher oil production that is helping us in terms of the balance of payments. It's helping us to keep a more stable currency but the Achilles heel of this economy has always been the fiscal policy and how you run your fiscal issues. The difference that I can see between now and then is the commitment to fiscal consolidation which in addition to the strong balance of payments outturn and more sustainable fiscal policies would help bring inflation down and entrench macro stability. This is why the government is putting a lot of emphasis on the fiscal and the discussion about setting a deficit ceiling of five percent of GDP in the PFM Act. So it's important and I think that is the difference between now and your déjà vu this time around.

Questioner: *The collapsed banks, UT and Capital, were indigenous banks and then we've had uniBank also facing problems. Can you give us the true picture of our indigenous banks in the country currently?*

Governor: The assessment that we made about the banking system includes the indigenous banks. The indigenous banks are also improving and trying to rebuild capital. Obviously, we have a number of them that are smaller, so we expect that they would consolidate. As part of the broader recapitalization process for 2018 we expect that the smaller indigenous banks would in a sense come together and become stronger. We've also put out new guidelines for corporate governance which should help improve governance structures, particularly in the indigenous Ghanaian banks.

Questioner: *This question, I know, relates to the legacy issue you've inherited but nonetheless I hope you can find a means of solving it. With regards to the challenges in the micro-finance sector, there have been so much turmoil and a lot of peoples' monies are locked in there. What plans does the central bank have to ensure that people whose life time savings are locked up in these sectors get their money?*

Governor: The micro-finance sector has a lot of challenges and given the data we have put out there, you know about what happened in 2016. I think given this history, nobody wants a repeat. Now, we are trying to look at the numbers. The issue is that micro-finance institutions are doing everything that they are not supposed to do and behaving like they are banks, that's the core part of the problem. So, the Other Financial Institutions Supervision Department has given the sector new guidelines on business practices.

There is also an intention to increase the capital requirements for micro-finance institutions and we are discussing with the government a roadmap on possibly consolidating that sector and finding a way in which we can deal with the issue of depositor's funds. This is not unrelated to the attempt we are making at pushing for the deposit insurance. It is because of this problem that the deposit insurance arrangement becomes very important and as you are aware,

Parliament last Friday passed the Deposit Insurance Amendment Bill and when that is operationalized at least, deposits up to a certain threshold would be covered by insurance.

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