



**18<sup>TH</sup> ANNUAL WORKING LUNCHEON OF THE  
GHANA ASSOCIATION OF BANKERS**

**SPEECH DELIVERED BY  
DR. ERNEST ADDISON  
GOVERNOR, BANK OF GHANA**

**FRIDAY, AUGUST 03, 2018  
MOVENPICK HOTEL, ACCRA**



**Mr. Chairman,  
President, Association of Bankers  
CEOs of banks,  
Executive Secretary, Association of Bankers,  
Colleague Bankers,  
Invited Guests,  
Members of the Press,  
Distinguished Ladies and Gentlemen**

**1.** Good afternoon everyone. All too soon another year has caught up with us for the 18<sup>th</sup> annual working luncheon. It is my singular pleasure to deliver the keynote address for this occasion, which has brought together the Ghana Association of Bankers, the Management Team of Bank of Ghana and other stakeholders. Such events present the Central Bank a unique platform to interact with industry players and share our vision for the financial sector, with specific emphasis on the banking industry and recent developments. My focus today will be on steps being taken by the Central Bank to sanitize the industry and place them on a higher pedestal to support economic growth.

### **Recent Developments**

**2.** Mr. Chairman, in the year so far, we have seen continued improvements in the economy. Headline inflation has trended within the medium-term target band of  $8\pm 2$  percent, despite the marginal uptick over the past two months which was due to increased transport fares. Despite the upturn, inflation expectations are well-



anchored while the Bank's latest forecast has remained broadly unchanged and suggests a gradual return to the target band over the horizon.

- 3.** Overall, the country is on the path to full economic recovery with a strong first quarter growth. The growth pickup reflected a stronger rebound in the services sector. Also, the Bank's Composite Index of Economic Activity (CIEA) registered a pickup in the year to May, reflecting increased industrial consumption of electricity, construction and exports. These, supported by positive business and consumer sentiments on the economy, should spur growth over the medium-term.
  
- 4.** The recent volatilities in currency markets across most emerging market and frontier economies, including Ghana, was largely attributed to the normalisation of US monetary policy, which has resulted in a stronger US dollar and rising US yield rates. The combined effect of these factors has led to tight global financing conditions, reversed capital flows and in turn resulted in exchange rate pressures. As we speak, the local currency is gradually returning to some stability against the US dollar but requires continued vigilance as the external environment remains fluid.
  
- 5.** Mr. Chairman, the monetary policy rate has trended downward driven mainly by continued improvements in the macroeconomic fundamentals. Both the current account and fiscal deficits have continued to unwind, supported by prudent fiscal and monetary



policies, alongside declining inflation and some stability in the exchange rate. The MPR has declined since January 2018.

- 6.** As we work towards improving the economic environment, alongside continued efforts to restructure the banking sector, we expect that lending rates would continue to decline to support private sector credit allocation. As lending rates trend down gradually in response to declines in the policy rate, new loan advances are increasing alongside with easing of the credit stance on loans to households. This is all happening despite the on-going repair of banks' balance sheets of commercial banks.
- 7.** I must be quick to add that a turnaround of these indicators alone is insufficient to propel the economy to its desired trend growth. The existence of a sound and healthy financial sector would be needed to operate in a supporting macroeconomic environment to support efforts at growth. There is ample evidence to suggest that countries with better-developed and healthy financial systems tend to grow faster, with a large body of evidence suggesting that this effect is causal. We therefore need to pursue policies at ensuring that we deliver on a mandate of maintaining price and financial stability to create an enabling environment for sustainable economic growth.
- 8.** Before I touch on the specifics of progress made towards instituting regulatory reforms to strengthen and stabilize the banking industry, let me provide you with a snapshot view of where the industry stands regarding key indicators of the financial sector.



9. Mr. Chairman, our banking industry continued to demonstrate growth prospects as a result of the collective efforts to return the industry to stability. As at end-June 2018, total asset of the industry was valued at GH¢100.3 billion, growing by 15.7 percent from the corresponding period last year. This was influenced by credit off-take, which increased year-on-year by 3.1 percent to reach GH¢38.7 billion. The asset growth fueled expansion in branch and ATM networks, and increased competition evidenced by product and service deliveries.
  
10. Financial soundness indicators of the banking industry have broadly improved though pockets of weaknesses remain. The asset quality of banks remains a concern since it has transmitted into capital deficiency and profitability pressures in some banks. The Non-Performing Loans (NPLs) ratio remains high, but eased slightly to 22.6 percent in June 2018 from 23.4 percent in April. Adjusting for loan loss provisioning, the NPLs ratio remained stable at 12.3 percent. The capital adequacy of the industry remained above the 10 percent benchmark at 19.3 percent in June 2018 from 14.8 percent a year earlier, reflecting efforts by banks to comply with the capitalization directive by December 2018.

### **Restructuring of the Banking Sector**

11. Fellow bankers, as we strive to sustain growth of the banking sector, let us be reminded that our actions and/or inactions have immensely contributed to the challenges that we are witnessing in recent times. Mr. Chairman, as you are aware, the banking industry is going through some turmoil but there are some positive signs of recovery



going forward. In this regard, stakeholders' collective effort is required to redirect, reshape and refocus the banking sector to its core principles and objectives as financial intermediaries for economic growth.

- 12.** As you are all aware, the Bank of Ghana is mandated by law to promote the safety, soundness, and stability of the financial system and most importantly to protect the interest of depositors. Since April 2017, the Bank of Ghana has introduced a comprehensive set of reforms with the sole objective of repairing and restructuring to ensure banks are well-capitalized and strong to support the fast growing Ghanaian economy.
- 13.** In achieving this objective, we have taken very difficult decisions. First, the closure of two banks in August 2017 and just two days ago, the consolidation of five banks (uniBank, Sovereign, Construction, Beige, and Royal) into a new indigenous bank, namely the Consolidated Bank Ghana Limited. Underpinning these rather unpleasant but needful decisions to ensure stability in the financial system were a series of infractions including, license acquisition by false pretenses, inadequate capital, high levels of non-performing loans owing to poor liquidity and credit risk management controls, and above all weak corporate governance structures.
- 14.** Ladies and Gentlemen, to support government's twin-objective of financial stability and strengthening indigenous banks, the Government of Ghana has recapitalized the newly formed bank to take on the selected good assets and the liabilities of the defunct five



banks. Additionally, the Government has also issued a bond of GH¢5.76 billion to cover the gap between the liabilities and good assets assumed by the Consolidated Bank. The doors of the new Consolidated bank are already open for business with the general public.

- 15.** Furthermore, the Government has assured the Bank of Ghana that it will be providing financial support to other indigenous banks as needed, to help them meet the minimum capital requirement of GH¢400 million by 31<sup>st</sup> December 2018. However, the Government has indicated that such support will be limited to indigenous banks that are **solvent, well-governed and managed, in full compliance with the Bank of Ghana's regulatory requirements**, and able to demonstrate that they have been unable to access private sector solutions for recapitalization due to market conditions.

### **Looking ahead – strengthening the Supervisory and Regulatory Environment**

- 16.** Mr. Chairman, allow me to turn attention to the various regulatory reforms that the central bank is undertaking to strengthen and stabilize the banking industry. These reforms are aimed at ensuring the safety and soundness of individual banks, aligning macro-and micro-prudential risks to bank capital and addressing cross-sectoral and cross-border risks to the industry. In order to address the overall risks of the industry, and to properly risk-profile individual banks, we are **revising the current risk based supervision**



**framework** to take account of the current developments in the global banking environment.

- 17.** As part of our efforts to reduce the level of impaired assets, we have embarked on an exercise with the banks to help clean their books and remove the structural challenges that undermine the effective credit delivery process. We are enforcing our directive on **loan write-off** and will require appropriate disclosure of written-off facilities in the published financial statements of banks.
  
- 18.** We are also reviewing the **governing legislations on the credit reference system** to require banks to submit both positive and adverse information on borrowers to the bureaus through a new portal that has just been developed. The BOG is also working on the **collateral registry system** to address some outstanding issues with foreclosure. We are also supportive of government efforts to enhance clarity in the land acquisition process which transmits into the collateral perfection processes for banks. In addition, we are hopeful that the introduction of the Ghana Reference Rate, Ghana Post GPS and the national identification program would contribute to the on-going measures aimed at reducing the incidence of loan defaults.
  
- 19.** Mr. Chairman, our resolve to fight financial crime means we need to continuously invest and **strengthen our AML/CFT regime** by increasing the scope of AML risk-based supervision and collaborate with the Financial Intelligent Centre (FIC), Economic and Organized Crime Office (EOCO) and other law enforcement agencies to enforce



the AML/CFT regulations. As we work closely with these agencies, the emerging area of crime that threatens the very existence of financial institutions is cybercrime.

20. Cyber criminals have managed to bypass security controls and to exploit breaches or vulnerabilities within the cyber and information security defenses of financial systems. In this regard, the Central Bank has issued a **draft directive on cyber and information security** to the banking industry. We have received comments and provided feedback to the industry on the directive and this would soon be launched and enforced to address the cyber security and related risks in the industry.
21. Mr. Chairman, we have also issued the **final directive of the Capital Requirement Directive (CRD)** which addresses Pillar one (1) of Basel II/III capital regime. We are now at the parallel-run stage in the implementation process and full compliance would be enforced by January 1, 2019.
22. We are currently working on requirements under Pillar II of the Basel accord to strengthen the supervisory review process. This would involve the **Internal Capital Adequacy Assessment Process (ICAAP)** allowing banks to undertake an assessment of the capital commensurate with all their risk exposures. We are also driving the disclosure requirements in conformity with pillar III of the Basel accord to enhance appropriate information flow to market participants.



- 23.** The process of fully operationalising the BSDI Act, 2016 (Act 930), is in progress and we are currently reviewing existing directives and regulations to align them with the Act. In line with this, we have issued draft exposures for comments relating to the **“fit and proper” directive, financial holding companies and the mergers and acquisitions directive.** As required by Act 930, these draft directives have been published on the website of the Bank of Ghana for comments.
- 24.** Corporate governance has become increasingly important given recent infractions in the financial sector. As mentioned earlier, one of the key reasons for the revocation of licenses of seven (7) banks was weak corporate governance structures. In line with this, the Bank of Ghana, in consultation with the stakeholders, moved quickly to align with best practices by issuing a corporate governance directive for the industry. It became necessary that the transitional directive was issued in particular to clarify the operationalization of this directive. In operationalizing the directive, Bank of Ghana will look at ways to make this transitional provision practical, taking into consideration the current landscape of the top management of financial institutions.
- 25.** The Central Bank after discussions with the industry has directed for **the adoption of the accounting standard on financial instruments (IFRS 9)** which began January this year. IFRS 9 requires banks to implement the expected credit loss model for the banking industry. Though it was expected that the implementation of new model would increase credit impairment in the banks, the



central bank's assessment of the impact, revealed that increases in loan loss impairment were largely contained within the regulatory credit risk reserve.

- 26.** Mr. Chairman, as we move closer to December, banks are making frantic efforts to comply with the **minimum capital requirement**. As noted at the July MPC press conference, six (6) banks have already achieved full compliance with the recapitalisation requirement and the rest are at various stages of compliance. The Bank of Ghana is monitoring progress with each bank to ensure the execution of their plans and move towards compliance.
- 27.** We have started work on addressing the crisis that bedeviled the industry and crisis management and response should be critical in enhancing customer confidence in the system. The **implementation of the deposit protection scheme** is on-going in line with the Ghana Deposit Protection Act, 2016 (Act 931) as amended to provide a safety net for vulnerable depositors in the event of a bank failure.

## **Conclusion**

- 28.** Mr. Chairman, as I take my seat, let me conclude that the current challenges in the banking sector are surmountable and we can positively turn these into opportunities to establish stronger and adequately well-capitalised banking sector to support economic growth. Going forward, the BOG will continue to strengthen its regulatory and supervisory frameworks to promote confidence in the



banking sector and financial system as a whole. Thank you and enjoy your lunch.