4TH EDITION OF AB & DAVID'S CRYSTAL BALL AFRICA 2017

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THEME: BANK OF GHANA'S MONETARY POLICY IN 2017.

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Mr. Chairman,
Partners of AB & David,
Honourable Members of Parliament,
CEOs and Captains of Industry,
Distinguished Guests,
Ladies and Gentlemen,

1. Introduction

It is an honour for me to join you at this 4th Edition of AB & David's Crystal Ball Africa holding here in Accra. Let me congratulate the organisers for bringing together businessmen and women and professionals to discuss business trends on the African continent with a special focus on Ghana. I consider this forum to be timely and important considering the issues slated for discussion and the fact that it coincides with the beginning of a new administration.

It is my firm belief that all the issues being discussed today will give us a renewed passion and enthusiasm to pursue the developmental agenda we have set for ourselves as a country.

Mr. Chairman, I have been asked to speak on the Bank of Ghana's expected monetary policy measures in 2017 that will help reduce inflation, avoid exchange rate fluctuations and reduce interest rates. Let me be quick to say that my speech does not intend to set the agenda for the MPC to follow.

What it intends to do is to review the key global and domestic macroeconomic issues that may confront the MPC in their monetary policy deliberations in the coming year.

This should also provide some forward guidance to the public regarding monetary policy stance and direction in 2017.

2. Brief Review of 2016 Performance

Mr. Chairman, data from the Ghana Statistical Service (GSS) show that inflation declined to 15.5 percent at end-November 2016, after peaking at 19.2 percent at the end of the first quarter of 2016. The decline in inflation in November was largely driven by non-food inflation which eased downward to 18.7 percent in November from 19.4 percent recorded in October 2016. Food inflation increased slightly to 9.3 percent from 8.7 percent. Latest information released by the GSS this morning shows that inflation eased further marginally to close 2016 at 15.4 percent, although the current level remains high relative to the medium-term target of 8±2 percent. The Bank will therefore continue to pursue policies to deliver the medium term target.

Economic growth (including oil) in the third quarter of 2016 was 4.0 percent, compared to 3.5 percent in the same period of 2015. Non-oil GDP for 2016:Q3 was 4.6 percent, compared to 4.1 percent in 2015:Q3. The services sector recorded the highest growth rate of 4.7 percent followed by industry, 3.9 percent and agriculture, 2.3 percent.

On the external sector, for the first ten months of 2016, the trade account provisionally recorded a deficit of US$2,142.87 million, compared to a deficit of US$2,832.91 million over the same period in 2015. The reduction in the trade deficit was due to an increase in export earnings and a corresponding decrease in total imports over the period. Merchandise export earnings totalled US$8,741.53 million, indicating a marginal rise of 2.48 per cent from US$8,530.12 million recorded for the same period in 2015. Merchandise imports for the first ten months of 2016 amounted to US$10,884.41 million, indicating a 4.21 per cent fall in level recorded in the same period of 2015.

Consequently, the foreign exchange market was very stable for most part of the year 2016 as the cedi depreciated by less than 5% against the US dollar from the beginning of the year to end-November 2016. The observed stability which characterised the foreign exchange market during the first eleven (11) months of the year was partly due to a combination of factors including:

- Improved market sentiments due to the stable foreign exchange reserves managed by the Central Bank (A $1.8 billion cocoa syndicated loan and a $750 million 5 year Eurobond loan in September, 2016.)
- Fiscal consolidation as a result of the a 3-year extended credit facility program with the IMF. Favorable reports from the IMF reviews on the Ghanaian economy boosted market confidence.
- The central bank's tight monetary policy stance
- Muted speculative activities.
- Increased foreign participation in the local bonds both in the primary and secondary markets (mostly by high yield seeking foreign investors as yields in the developed markets became unattractive)
- Favorable international financial market developments including the delay by the US Federal Reserve in increasing its interest rate, the impact of Brexit on the pound sterling, etc. These actions supported frontier and emerging markets currencies as a result of stable capital flows.

I must emphasise that the relative calm experienced on the foreign exchange market during the first 11 months last year was in sharp contrast to what prevailed during the same period in 2015. You will recall that for the first eleven months in 2015, the domestic currency had depreciated significantly by 15.48%, 12.66% and 2.78% against the US dollar, the pound sterling and the euro respectively. These were significantly higher compared to a cumulative depreciation of 5.87% and 3.22% recorded against the US dollar and the euro respectively as at the end of November, 2016.

Indeed, market pressures started picking up at the beginning of the fourth quarter of 2016 when the domestic currency began to depreciate at a faster pace. Our market intelligence at the time revealed that this pick-up towards the end of the year was due to among others:

- A rise in foreign exchange demand as the Christmas season approached.
- Unfavourable commodity prices abroad coupled with unanticipated technical problems in the Jubilee oil field which impacted negatively on exports receipts and weakened the cedi.
- Election-related uncertainties that made people to buy-and-hold awaiting the outcome of the 2016 general elections.
- Relative strong US dollar after the US elections.

This notwithstanding, cumulatively from the beginning of the year to December 30, 2016 the cedi depreciated by 9.65% and 6.87% versus the US dollar and the euro respectively. It remained strong in value against the pound sterling as it actually appreciated by 8.08%. Hence, the foreign exchange market in the year 2016 was fairly and relatively stable with minimal disruptions, compared to the earlier four successive years of double digit depreciations. In 2017, it is projected that there would be even greater stability in the foreign exchange markets.

3. Update on the IMF Extended Credit Facility

The implementation of the IMF Programme has helped in restoring investor confidence in the economy. The fact that foreign investors continued to patronise medium-and long-term government securities in 2016, an election year, gives credence to the increased investor confidence in the Ghanaian economy. Indeed the relative stability in the foreign exchange market throughout 2016 could be partly attributed to the confidence arising from the IMF ECF Programme following three consecutive successful reviews.

It is expected that the broad measures under the program to restore macroeconomic stability will continue in 2017.

4. Macroeconomic Outlook for 2017

Mr. Chairman, global growth is projected to pick up from 3.1 percent in 2016 to 3.4 percent in 2017. This will be on account of a projected 0.2 percentage point increase in the growth of advanced economies to 1.8 percent and expansion of emerging markets and developing economies by 4.6 percent in 2017. The expansion in the advanced economies will be driven largely by a positive impulse from financial conditions in the US, notably tax reforms coupled with some fiscal easing and some increase in infrastructure spending. It is projected that the Eurozone will be out of recession in 2017 due to easier fiscal policy. Some growth is also expected in Japan, Sweden, Norway, Canada and Australia. The growth spots in emerging markets and developing economies include the BRICKS and Nigeria. It is projected that the recession in countries such as Brazil, Nigeria and Russia in 2016 will wane in 2017 and more than make up for the steady slowdown in growth in China.

The projected increase in global demand coupled with the recent decision by OPEC members to cut output should cause an uptick in the prices of some commodities, especially crude oil, in the international market in the short-to-medium term. Oil prices are projected to increase gradually over the forecast horizon, from an average of US$43 a barrel in 2016 to US$51 a barrel in 2017, while cocoa price on the global market is projected to average about US$2,940 per tonne although it opened the year around US$2,177 per tonne. A gold price on the international market is projected to average US$1,219 per fine ounce in 2017. The price of the precious metal appears to be consolidating around its projections at the beginning of the year 2017.

Despite these positive projections about global demand and commodity prices, the global economy may encounter some headwinds. Given that the US economy is already at full employment, any further push up of the growth rate may put upward pressure on inflation, interest rates and the dollar. It is expected that the Fed may hike interest rates twice or thrice during the course of 2017. This could lead to sudden stops and reversals of portfolio flows from emerging market countries and cause depreciation of currencies in emerging market economies. Other challenges that the global economy may face include uncertainties emanating from the political fallout from Brexit and the presidency of Donald Trump in the United States with its attendant geopolitical tensions across the globe.

5. Monetary Policy Stance and Direction for 2017

These developments in the global economy and the challenges that may come with them are likely to define domestic macroeconomic policy and the stance of monetary policy in 2017. Certainly, the Bank will continue to deploy tools at its disposal to contain inflation, depreciation of the cedi, and sustain the macroeconomic stability. But the question is whether given the current state of the economy, external sector projections and probable domestic macroeconomic policies, whether it will still be possible to achieve all three goals: appreciable disinflation, stable exchange rate and a reduction in interest rates in the short term.

Achieving these three at the same time may be a challenge, especially when the external environment and domestic macroeconomic policies are not consistent.

Fortunately, with the new commitment to ensure fiscal discipline, reduce deficits and not to compete with the private sector in the money market, interest rates would decline in the short-to-medium term.

In 2017, the Bank will continue to monitor closely both domestic and external developments so as to take appropriate policy measures to sustain and improve upon the relative stability that has been achieved so far. Key among the policy measures that are expected to feature (unless otherwise determined) include:

- Continued implementation of terms under the ECF programme. For example, the zero financing limit for the central bank under the programme will continue to be rigidly enforced;
- 100 percent repatriation of all export proceeds;
- ceding the compulsory surrendered portion of gold export revenues to commercial banks;
- Effective communication and forward guidance on monetary policy;
- Settlement of the energy sector indebtedness to the banking system will be pursued;
- Strengthening and intensification of micro and macro prudential regulations and supervision;
- Effective collaboration and coordination with the fiscal authorities to reduce domestic borrowing in order to lower interest rates; and
- Effective coordination with the fiscal authorities to sustain the relative stability achieved so far and promote economic growth.

6. New regulatory measures for the banking sector

Mr. Chairman, Permit me to give you a brief update on developments in the banking industry, and to highlight a few of the new measures that would be implemented during the year. Generally, the industry remains stable, solvent and liquid as evidenced by key financial soundness indicators (FSIs), though some declines have been recorded in the performance of some of these indicators in 2016.

- Capital adequacy ratio was 17.0 percent at the end of the third quarter in 2016 compared to 17.6 percent at the same time in 2015;
- core liquid assets to total assets ratio was 25.1 percent, compared to 26.5 percent in the same period of 2015;
- Return on equity (after tax) was 4.8 percent in 2016:Q3 as against 5.4 percent in 2015:Q3; operational cost to income ratio stood at 49.7 percent, compared to 51.3 percent as at 2015:Q3.
- Although the non-performing loans (NPLs) ratio was 19.0 as at 2016:Q3 relative to 13.5 percent in the same period of 2015, this was due to the increased exposure of the banking

sector to the energy sector. The good news however is that the energy sector's indebtedness to the banking sector is being cleared through the energy sector levy, under the restructuring program. This is estimated to result in industry NPLs declining to single digits upon completion of the program.

As you may be already aware, in our bid to further strengthen the supervisory and the regulatory environment, two (2) new pieces of legislation have been enacted that empower the Bank of Ghana to effectively supervise the banking industry and respond to emerging trends and developments in banking. These include the Banks and Specialised Deposit-Taking Institutions Act and the Deposit Protection Act.

a. The Banks and Specialised Deposit-Taking Institutions Act

The Act seeks to address regulatory gaps in the old Banking Act regarding Consolidated supervision, Prompt corrective action and Bank Resolution, Corporate Governance, Financial Holdings Companies and the abolishing of single obligor waivers among others. The new Act has significantly improved our supervisory and regulatory landscape and will further facilitate the implementation of the Basel II supervisory framework which is scheduled to commence later this year.

b. The Deposit Protection Act

The passage of the deposit protection Act, marks another significant milestone in shaping the safety and soundness of the banking environment. The Act has made it mandatory for all deposit-taking institutions to be members of the deposit insurance scheme which will provide a safety net for depositors in the event of bank failures of systemic nature. The objective of the legislation is to protect small savers from loss incurred as a result of the occurrence of an insured event, which is the revocation of the licence of a deposit-taking institution.

The deposit protection scheme will initially function as a pay box with the amount of compensation to be paid to bank customers in the event of bank failure limited to GH¢6,250 per customer and GH¢1,250 for customers of Specialized Deposit Taking Institutions. However as provided by the Deposit Protection Act, the scheme would eventually be transformed into a fully-fledged deposit insurance scheme with a broader mandate to engage in risk-minimization and other roles.

We are now in the implementation phase of these two Acts with the drafting of respective regulations to provide the necessary implementation guidance for the industry.

c. Revision of Base Rate Methodology

In our quest to enhance efficiency and transparency in the determination of lending rates in the industry, a technical committee was set-up with representatives from the Bank of Ghana and the Ghana Association of Bankers. The committee was tasked to take a second look at the existing methodology for the determination of base rates across banks. The committee has since submitted a draft framework which is currently under consideration. Unlike the existing framework which is largely driven by bank specific indicators, the new methodology is forward-looking and it is anchored on market-based indicators and better reflects prevailing market conditions. I am confident that the new methodology which is slated for implementation this year will put to rest, industry concerns on the challenges that have surrounded the implementation of the existing framework and to further engender transparency in loan pricing by banks.

d. Payment System – Developments

One other key mandate of the Bank of Ghana is to promote, regulate and supervise payment and settlement systems in the country. To this end, a number of policy initiatives are expected to be implemented in the payment system space in 2017 to enhance the safety and efficiency of our payment and settlement systems. These include:

- Publication and adoption of cyber security guidelines for financial market infrastructures
- Establishment of Payments Systems Council
- Adoption of EMV chip and PIN technology for payment cards
- Drafting of Payment Systems and Services Bill for consideration
- Adoption of Payment Card Industry Data Security Standard(PCI DSS) by institutions involved in payment card business
- Implementation of Bank Identification Number as a unique identifier of all bank customers in Ghana
- Assessment of payment system infrastructures of systemic importance using the Principles of Financial Market Infrastructure (PFMI) issued by the Bank for International Settlements.
- Implementation of mobile money interoperability project to enhance efficiency in mobile money transactions and improve liquidity management in the payment system
- Minimum Standards for Payment Systems Equipment
- Development of Agent Registry to contain agent related fraud, etc.

These initiatives are meant to improve the payment systems environment to enhance efficiency in service delivery, promote financial inclusion as well to enhance the oversight function of the Bank of Ghana. It is my hope that these initiatives will deliver the attributes of effective payment systems infrastructure that is required to support operations of our banking institutions.

e. Market Conduct - Fraud

Statistics released by the Market Conduct Office of the Financial Stability Department of the Bank of Ghana on Fraud and Defalcation in the industry is worrisome. Card fraud remains a major operational risk that confronts the industry today. Available records indicate that the number of reported cases had increased over 282% as at end November 2016 compared with the corresponding period in the preceding year. This is followed by the incidence of cheque cloning which has increased by 62% as at end November 2016.

In response to these challenges, banks are scaling-up their IT security infrastructures to ward-off these risks. The Bank of Ghana will require banks to intensify efforts in the following areas in particular:

(i) Regular review and upgrade of existing IT infrastructure,
(ii) Installation of stronger firewalls,
(iii) External review of systems by IT experts and
(iv) Acquisition of ISO Certification of Systems among others.

Also, as a result of regulatory and supervisory initiatives by the Bank of Ghana, the use of magnetic strip-based ATM/POS cards have been abolished in the banking sector due to the risk vulnerabilities inherent in that technology. Today, a two-factor authentication technology, based on CHIP and PIN has been adopted and this to a large extent has mitigated the risks associated with the use of electronic cards.

To further mitigate the risks arising from IT, the Bank of Ghana has initiated action towards the introduction of IT security Guidelines for the banking sector. This will convey minimum IT security standards to all banks and ensure that the entire industry is up-to speed with developments on the IT front. To this end, the Bank of Ghana in collaboration with the National Banking College would be organising appropriate programmes for the industry this year to complement measures to mitigate the operational risks of banks.

f. Bank of Ghana's 60th Anniversary Celebrations

Finally, and on a lighter note, you will recall nearly a decade ago, when the Bank of Ghana celebrated its golden jubilee with currency exhibitions and road shows across the country. Once again, on the 4th of March 2017, we shall be celebrating the 60th Anniversary of Central Banking in Ghana. As part of the celebrations, a new commemorative banknote in five-cedi (GH¢5) denominations will be unveiled. This banknote will be legal tender as well as a collector's item. The note will have new durable security features which can be easily identified by the public as well as introduce other internationally acceptable security features which are sensitive to touch to aid the blind and visually challenged in identifying the banknotes. The climax of this celebration will take place in August 2017 which will mark exactly 60 years when Bank of Ghana opened its doors to the public. The program for the celebrations will be announced in due course.

Conclusion

To now conclude, I want to thank the organizers again for inviting me to join you at this year's edition of the program. I hope that I have addressed the theme assigned to me adequately, and that I have given you a sense of the main monetary policy measures in 2017 as well as other reforms slated for the banking sector in 2017, to enhance the efficiency of financial intermediation and thereby enhance economic growth.