BANK OF GHANA

Banking Sector Report

JANUARY 2019

CONTENTS

1. PREFACE

The Bank of Ghana's Banking Sector Report is published after the Monetary Policy Committee (MPC) meetings. The report highlights developments in the banking sector which were deliberated on during the policy making process. The aim of publishing the report is to provide the public with information on performance of the banking sector which served as inputs for the MPC meetings. Through the publication of these documents, Bank of Ghana aims to promote accountability of its decision making and build understanding of the monetary policy formulation process among stakeholders.

Monetary Policy Formulation in Ghana

Objective

The primary objective of the Bank of Ghana is to pursue sound monetary policies aimed at price stability and creating an enabling environment for sustainable economic growth. Price stability in this context is defined as a medium-term inflation target of 8 percent with a symmetric band of 2 percent. This implies that annual changes in the Consumer Price Index (CPI) should range between 6 and 10 percent over the medium term for the economy to grow at its full potential without excessive inflation pressures. Other tasks for the Bank of Ghana include promoting and maintaining a sound financial sector and payment systems through effective regulation and supervision. This is important for intermediation since risks associated with financial markets are taken into account in monetary policy formulation.

Monetary Policy Strategy

To achieve the objective of price stability, Bank of Ghana was granted operational independence to employ whichever policy tools were deemed appropriate to stabilise inflation around the target band. The Bank of Ghana's framework for conducting monetary policy is Inflation Targeting (IT), in which the central bank uses the Monetary Policy Rate (MPR) as the primary policy tool to set the monetary policy stance and anchor inflation expectations in the economy.

The Monetary Policy Process

The MPC is a statutorily constituted body by the Bank of Ghana Act to formulate monetary policy. The MPC consists of seven members – five from the Bank of Ghana (including the Governor who acts as the Chairman) and two external members appointed by the Board of Bank of Ghana. The MPC meets once in every two months to assess economic conditions and risks to the inflation outlook, after which a policy decision is made on positioning the MPR. Each MPR decision provides a signal of tightening (increase), loosening (decrease) or maintaining (no change) the monetary policy stance. The MPC meeting dates are determined well in advance at the beginning of each year. The policy decision is arrived at by consensus with each member stating reasons underlying a preferred rate decision. An MPC policy statement is published via a press release, and a press conference is held after each MPC meeting to communicate and explain the decision of the Committee to the financial markets and the general public.

2. SUMMARY

This report covers developments in Ghana's banking sector as at December 2018 compared with the same period last year. The data for the analysis is based on the thirty (30) banks operating during December 2018.

Banking sector assets in December 2018 grew by 14.7 percent to GH¢107.34 billion, up from 13.3 percent a year ago. The growth in assets was funded mainly by deposits and increases in paid-up capital from the recapitalization exercise. Total loans and advances (including loans of the 5 defunct banks transferred to the Receiver) were up by 12.9 percent to GH¢42.7 billion as at end of December 2018. Domestic gross loans (excluding the loans of the 5 defunct banks) however contracted by 3.5 percent to GH¢36.50 billion in the review period.

Profitability of the banking sector remains strong although the industry's net profit after tax moderated in 2018 compared with 2017. Key financial soundness indicators also improved. The industry's capital adequacy ratio (CAR) was higher at 21.9 percent at year-end 2018, significantly above the prudential requirement of 10 percent. Liquidity was adequate with notable improvements in both core and broad operational liquidity measures. Asset quality was enhanced with the Non-Performing Loan (NPL) ratio declining to 18.2 percent in December 2018 from 21.6 percent a year earlier, largely as a result of enforcement of Bank of Ghana's loan loss write-off policy. Based on the findings from the latest stress tests, the banking sector was robust and resilient in December 2018 compared to December 2017.

The recapitalisation exercise ended on December 31, 2018 and a review of the outcome in early January 2019 showed that a total of 23 banks met the minimum requirement, comprising fourteen (14) foreign-controlled banks and nine (9) domestically-controlled banks. The year 2018 ended on a solid note with a more consolidated banking sector as weaker and undercapitalised banks that posed risks to financial stability were resolved. This has enhanced efficiency and restored confidence and resilience in the banking sector, with banks now better positioned to support private sector-led growth in the Ghanaian economy. Looking ahead, there will be a need to focus on reducing the high NPLs in the sector and addressing risks associated with the high degree of interconnectedness in the financial system which will require close monitoring to ensure financial stability.

3. BANKING SECTOR DEVELOPMENTS

3.1 Banks' Balance Sheet

The assets size of the banking sector was GH¢107.34 billion at end-December 2018, registering an annual growth of 14.7 percent, compared with 13.3 percent growth at end-December 2017. The slightly higher growth was reflected in both domestic and foreign assets. Domestic assets grew by 15.1 percent at end-December 2018 against 13.8 percent at end-December 2017, while growth in foreign assets picked up to 9.6 percent from 8.5 percent during the same comparative period. Domestic assets constituted the largest component of total assets with 91.9 percent share as at end-December 2018.

Among the major asset classes, total investments (GH¢38.16 billion) held the highest share of 35.6 percent as at end-December 2018. Investments recorded a year-on-year growth rate of 33.6 percent in 2018, up from the 24.9 percent recorded a year ago. This was attributed to an increase in the long-term component of investments, which also reflected the government bond issued to Consolidated Bank to bridge the gap between the assets and liabilities of the 5 resolved banks in August 2018.

Domestic gross advances of GH¢36.50 billion, the second largest component of total assets, contracted by 3.5 percent in December 2018, compared with 6.3 percent growth a year ago.[1] Growth in net advances remained low at 1.0 percent in December 2018.

Fixed assets declined marginally by 2.3 percent while 'other' assets also declined by 26.8 percent. These developments resulted in declining shares of fixed and 'other' assets to 3.8 and 3.4 percent respectively, at end-December 2018 from 4.4 and 5.3 percent a year earlier. Notably, the low proportion of fixed assets and other assets (non-earning assets) in total assets represent efficient asset allocation of the banking sector.

Assets growth was funded mainly by deposits and shareholders' funds. Total deposits went up by 17.3 percent on-year-on-year basis to GH¢68.29 billion as at end-December 2018, compared with 10.5 percent growth a year earlier. About a quarter of deposits in 2018 were denominated in foreign currency. Shareholders' funds, resulting mainly from the recapitalization exercise, increased significantly to fund the growth in assets. Paid-up capital[2] more than doubled, going up by 137.6 percent year-on-year to GH¢10.88 billion in December 2018, and contributed to the 37.9 percent growth in total shareholders' funds. Accordingly, total shareholders' funds and paid-up capital accounted for respective shares of 15.8 and 10.1 percent of total funding in the banking sector, compared with 13.1 and 4.9 percent in December 2017.

Borrowings contracted by 12.4 percent in December 2018 compared with a growth of 23.2 percent in December 2017, reflecting banks' less reliance on borrowings as a result of increased deposit mobilisation and equity injection. The decline in total borrowings was on the back of contractions in both short term and long-term domestic borrowings. Banks however continued to borrow from foreign sources, with short-term foreign borrowings growth rising from 11.9 percent in December 2017 to 79.8 percent at end-December 2018, while growth in long-term foreign borrowings went up from 2.2 percent to 59.2 percent over the same comparative period.

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1 As mentioned earlier, this excludes the loans of the 5 defunct banks under receivership. We use this in subsequent analyses.

2 Accounts for expected inflows from GAT

Table 1: Key Developments in DMBs' Balance Sheet

	GH¢million				Y-on-Y Growth (%)			Shares (%)		
	Dec-16	Dec-17	Oct-18	Dec-18	Dec-17	Oct-18	Dec-18	Dec-17	Oct-18	Dec-18
TOTAL ASSETS	**82,644.0**	**93,627.4**	**106,339.5**	**107,340.4**	**13.3**	**19.6**	*14.6*	**100.0**	***100.0***	*100.0*
A. Foreign Assets	7,286.1	7,904.2	10,288.0	8,663.2	8.5	24.1	*9.6*	8.4	*7.9*	*8.1*
B. Domestic Assets	75,357.9	85,723.3	96,051.6	98,677.2	13.8	19.1	*15.1*	91.6	*92.1*	*91.9*
Investments	22,868.0	28,571.9	42,839.9	38,164.8	24.9	62.9	*33.6*	30.5	*29.3*	*35.6*
i. Bills	18,073.9	16,380.5	14,812.3	12,371.3	(9.4)	(15.3)	*(24.5)*	17.5	*20.4*	*11.5*
ii. Securities	4,377.4	11,768.2	27,601.6	25,390.7	168.8	229.0	*115.8*	12.6	*8.4*	*23.7*
Advances (Net)	31,134.1	31,463.9	30,551.1	31,790.4	1.1	(4.0)	*1.0*	33.6	*36.4*	*29.6*
of which Foreign Currency	8,818.0	8,634.8	9,259.6	9,971.2	(2.1)	3.5	*15.5*	9.2	*10.3*	*9.3*
Gross Advances	35,597.7	37,829.5	35,480.0	36,496.9	6.3	(7.5)	*(3.5)*	40.4	*43.3*	*34.0*
Other Assets	3,185.5	4,976.8	3,793.7	3,642.8	56.2	(23.1)	*(26.8)*	5.3	*5.2*	*3.4*
Fixed Assets	3,009.3	4,165.4	3,857.0	4,068.9	38.4	12.6	*(2.3)*	4.4	*3.7*	*3.8*
TOTAL LIABILITIES AND CAPITAL	**82,644.0**	**93,627.4**	**106,339.5**	**107,340.4**	**13.3**	**19.6**	*14.6*	**100.0**	***100.0***	*100.0*
Total Deposits	52,690.2	58,209.3	67,382.3	68,289.7	10.5	20.7	*17.3*	62.2	*62.8*	*63.6*
of which Foreign Currency	13,585.3	14,718.1	16,984.9	16,788.1	8.3	13.7	*14.1*	15.7	*16.9*	*15.6*
Total Borrowings	13,745.0	16,929.3	18,082.7	14,827.0	23.2	19.9	*(12.4)*	18.1	*18.1*	*13.8*
Foreign Liabilities	4,320.9	4,590.4	8,288.1	7,555.7	6.2	99.0	*64.6*	4.9	*6.0*	*7.0*
i. Short-term borrowings	2,152.6	2,409.0	5,058.9	4,331.5	11.9	170.3	*79.8*	2.6	*3.3*	*4.0*
ii. Long-term borrowings	1,752.8	1,791.3	2,887.1	2,852.2	2.2	48.4	*59.2*	1.9	*2.3*	*2.7*
iii. Deposits of non-residents	415.5	390.2	342.1	372.1	(6.1)	(1.5)	*(4.6)*	0.4	*0.4*	*0.3*
Domestic Liabilities	67,304.6	76,739.1	83,983.0	82,754.6	14.0	14.9	*7.8*	82.0	*81.2*	*77.1*
i. Short-term borrowing	8,462.0	11,401.1	7,642.1	6,765.4	34.7	(22.8)	*(40.7)*	12.2	*10.9*	*6.3*
ii. Long-term Borrowings	1,377.6	1,328.0	2,494.5	878.0	(3.6)	82.2	*(33.9)*	1.4	*1.6*	*0.8*
iii. Domestic Deposits	52,274.6	57,819.2	67,040.2	67,917.6	10.6	20.8	*17.5*	61.8	*62.4*	*63.3*
Other Liabilities	5,118.3	6,212.7	6,969.7	7,291.0	21.4	9.1	*17.4*	6.6	*6.3*	*6.8*
Paid-up capital	3,995.7	4,579.1	6,687.7	10,879.7	14.6	50.2	*137.6*	4.9	*4.9*	*10.1*
Shareholders' Funds	10,984.0	12,271.4	13,899.8	16,927.6	11.7	19.8	*37.9*	13.1	*12.8*	*15.8*

3.1.1 Asset and Liability Structure

Investments remained the major component of total assets of the banking sector, followed by net advances and then cash and due from banks. The share of investments in banks' assets increased to 35.6 percent in December 2018 from 30.5 percent in December 2017, while the share of net advances declined from 33.6 percent to 29.6 percent over the same comparative period. The proportion of cash and due from banks in the industry's total assets also went up to 27.6 percent as at end-December 2018 from 26.0 percent a year ago, as some banks, after injecting funds close to the recapitalisation deadline, were yet to deploy those funds into other income generating areas. The shares of fixed assets and 'other' assets in total assets remained low at 3.8 percent and 3.4 percent respectively as at end-December 2018.

Following the increase in paid-up capital during the year, the proportion of shareholders' funds in banks' funding structure increased from 13.1 percent to 15.8 percent during the review period. Deposits remained the main source of funding for the industry, with its share increasing from 62.2 percent to 63.6 percent between December 2017 and December 2018. The contraction in borrowings within the sector translated into a decline in the share of borrowings in total liabilities and shareholders' funds from 18.1 percent in December 2017 to 13.8 percent in December 2018 [See Annexes Table 1].

3.1.2 Share of Banks' Investments

Banks' investment portfolio showed a shift from investments in short-dated instruments to longer-dated instruments, partly due to re-profiling of government debt. Accordingly, the share of long-term securities in banks' investment portfolio increased sharply to 66.5 percent in December 2018 from 41.2 percent in December 2017, while the share of investment in short-term bills declined to 32.4 percent from 57.3 percent. The proportion of banks' investments in shares and other equities declined to 1.1 percent in December 2018 from 1.5 percent in December 2017.

3.2 Credit Risk

The industry's exposure to credit risk moderated in December 2018 relative to a year ago. Implementation of the Bank of Ghana's loan loss write-off policy by the banks resulted in a reduction in the NPL ratio to 18.2 percent from 21.6 percent during the review period. It is expected that adherence of banks to the Capital Risk Directive issued in 2018 will help banks manage credit risks effectively to further reduce the level of NPLs.

3.2.1 Credit Portfolio Analysis

Real credit growth (excluding loans under receivership) was subdued in December 2018 compared with the previous year. The banking industry's stock of gross loans and advances (both domestic and foreign) contracted by 12.0 percent in real terms to GH¢36.54 billion in December 2018[3] compared with the 4.2 percent contraction recorded in the same period last year. Loans to the private sector (private enterprises and households) far outweighed loans to the public sector, accounting for 91.4 percent of the total stock of loans as at end-December 2018, with the remaining 8.6 percent going to the public sector.

Growth in private sector credit (excluding the loans under receivership) declined by 11.7 percent in December 2018, after recording a modest growth of 2.3 percent in December 2017. Banks' credit stance on loans to households, however, continued to ease, resulting in a pickup in real growth of household credit to 28.6 percent in December 2018 from 11.7 percent in December 2017.

Household credit constituted 22.9 percent of the stock of total credit outstanding as at end-December 2018, while credit to private enterprises accounted for 66.3 percent. The share of indigenous private sector credit in total credit declined in favour of household credit between December 2017 and December 2018. [See Annexes Table 2 and Table 4]

In terms of sectoral distribution, credit to commerce and finance accounted for the largest share (24 percent) of the industry's outstanding credit as at end-December 2018. The services sector followed with a share of 21.5 percent of total credit. The three largest recipients of total credit, namely, commerce & finance, services and manufacturing sectors accounted for 56.9 percent of total credit in December 2018. Sectors with the lowest share of outstanding credit balances were the mining and quarrying, and the agriculture, forestry and fishing sectors with shares of 3.2 percent and 4.7 percent respectively.

3.2.2 Off-Balance Sheet Activities

The ratio of banks' contingent liabilities (off-balance sheet items) to total banking sector liabilities declined marginally to 11.1 percent in December 2018 from 11.5 percent in December 2017. Banks' reported off-balance sheet items of GH¢10.06 billion as at end-December 2018 representing a slower growth of 18.4 percent from the 22.0 percent recorded a year earlier. The slower growth in banks' off-

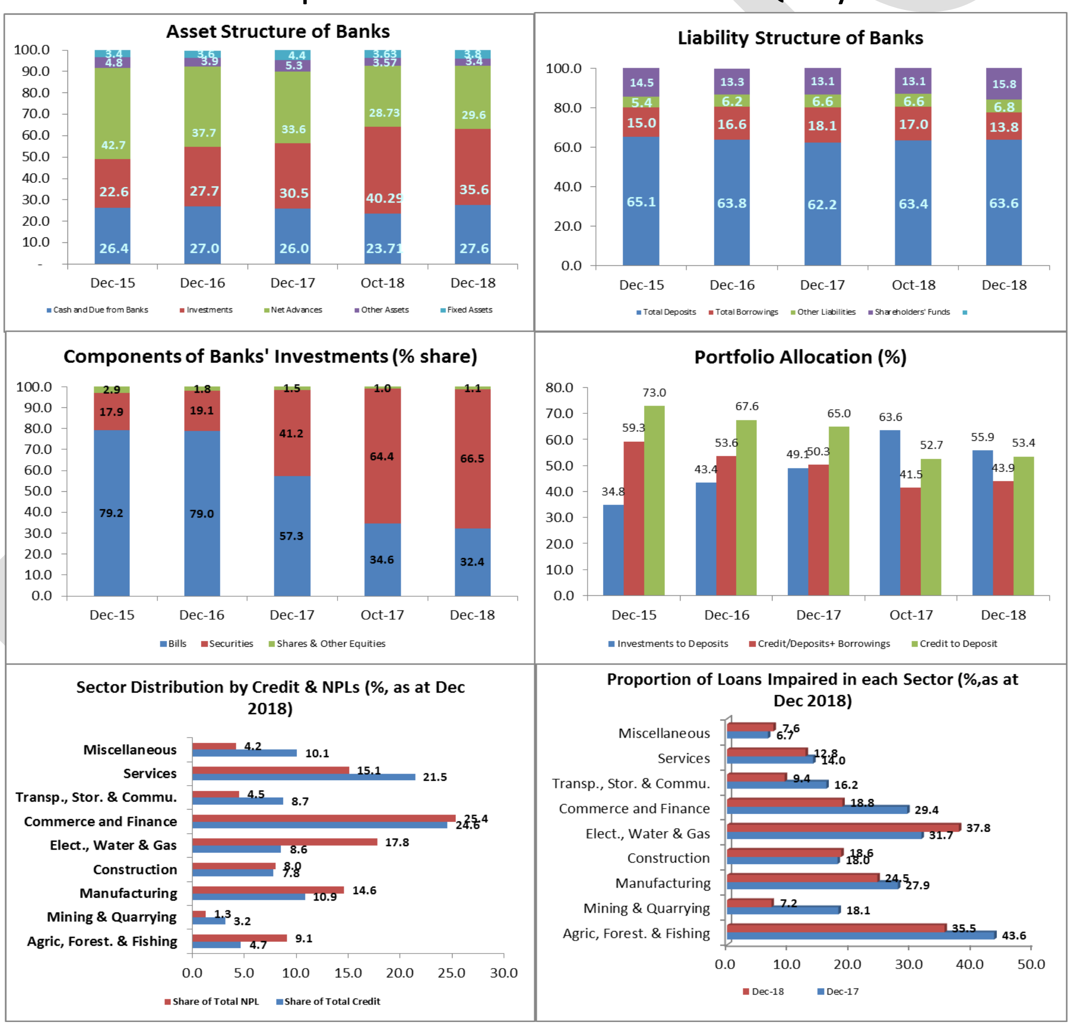
[3] Gross loans and advances grew in nominal terms by 12.9% when all the loans and advances of the five defunct banks are included.

balance sheet items reflects a decline in the growth of banks' trade finance and guarantees. [See Annexes Table 3]

3.2.3 Asset Quality

Asset quality in the banking sector improved following enforcement of the loan-write off directive issued in June 2018. Consequently, non-performing loans (NPLs) declined to GH¢6.65 billion in December 2018 from GH¢8.19 billion in December 2017, representing 18.9 percent contraction against a 33.4 percent growth recorded a year ago. The loss component of NPLs contracted by 32.4 percent and accounted for 49.2 percent of total NPLs in December 2018 compared with a growth of 40.1 percent and a share of 59.0 percent a year ago. Accordingly, the ratio of NPLs to gross advances declined to 18.2 percent from 21.6 percent during the review period. On the other hand, the industry's NPL ratio which was adjusted for fully-provisioned loss-category loans increased marginally to 11.7 percent in December 2018 from 11.3 percent in December 2017, signalling a slight uptick in the proportion of the substandard and doubtful loans in NPLs.

Developments in Banks' Balance Sheet & Asset Quality



The share of private sector NPLs in total NPLs increased to 97.1 percent in December 2018 from 94.1 percent in December 2017. In effect, public sector NPLs accounted for 2.9 percent of total banking sector NPLs in December 2018, down from 5.9 percent in December 2017. The contribution of indigenous private enterprises to total NPLs also declined to 77.4 percent from 79.7 percent over the same comparative period, following the decline in its share of total credit. Similarly, the contribution of households to the banking industry NPLs went up with the increase in its share of the industry credit, accounting for 9.4 percent of total NPLs in December 2018, compared with a share of 5.5 percent a year ago. [See Annexes Table 4]

A breakdown of the industry NPLs into the various economic sectors showed that the Commerce & Finance sector, the largest recipient of industry credit also accounted for the biggest share of industry NPLs of 25.4 percent. The Mining and Quarrying sector, being the least recipient of credit, accounted for the least share of 1.3 percent. However, the Electricity, Gas and Water sector with a share of 8.6 percent of outstanding credit balances accounted for the second largest share of industry NPLs of 17.8 percent. Notably, the sector had the highest NPL ratio (ratio of impaired assets to gross loans) of 37.8 percent. The Commerce & Finance sector recorded an NPL ratio of 18.8 percent indicating that almost a fifth of loans to the sector had been downgraded. Credit risk to the Mining & Quarrying sector appeared better managed than all the other sectors with only 7.2 percent of the total loans to the sector being classified as non-performing.

3.3 Financial Soundness Indicators

The main financial soundness indicators recorded broad improvement in December 2018 compared with the same period last year.

3.3.1 Liquidity Indicators

The banking industry remained adequately liquid to meet its short-term obligations, with core and broad liquidity indicators showing some improvements as at end-December 2018 compared to the same period last year. The industry's core liquid assets to total deposits ratio increased to 43.3 percent in December 2018 from 41.8 percent in December 2017 due to an increase of 21.7 percent in banks' liquid assets (cash and near cash items). Similarly, core liquid assets to total assets increased to 27.6 percent from 26.0 percent during the review period. The industry's broad liquid assets (cash, due from banks and investments) recorded a growth of 28.4 percent year-on-year, partly due to the issuance of the ESLA bond and the recent GOG bond to offset the liabilities of the 5 defunct banks transferred to the Consolidated Bank Ghana (CBG). Broad liquidity indicators therefore improved, with broad liquid assets to total deposits increasing to 98.6 percent from 90.1 percent and broad liquid assets to total assets rising to 62.7 percent from 56.0 percent during the period. [See Annexes Table 5]

3.3.2 Capital Adequacy Ratio (CAR)

The banking industry remained solvent in December 2018 with the main solvency indicator, the Capital Adequacy Ratio (CAR) well above the statutory requirement of 10.0 percent. The recent recapitalisation exercise contributed to the increase in the industry CAR from 18.5 percent in December 2017 to 21.9 percent in December 2018, while the Tier 1 CAR (another solvency measure) went up from 15.4 percent to 21.0 percent over the same period. The improved solvency will enhance the capacity of banks to expand credit growth as well as absorb any potential losses.

3.3.3 Profitability

Profitability within the banking sector moderated in 2018 relative to 2017. The industry's net profit after tax of GH¢2.40 billion in 2018, signalled a slower growth of 12.5 percent year-on-year in December 2018 compared with 21.7 percent growth a year earlier. Both interest income and interest expense respectively declined by 7.0 percent and 18.0 percent in 2018, partly as a result of the general decline in interest rates during the year and lower levels of loans and borrowings. These developments resulted in a marginal growth of 1.5 percent in net interest income, compared to 9.2 percent growth recorded a year earlier. Fees and Commissions however grew by 14.6 percent in 2018, compared with 12.7 percent growth in 2017. While the industry benefitted from a decline in growth of operating expenses, increasing costs related to provisions on non-performing loans and depreciation moderated the positive impact of lower operating costs, resulting in the lower growth rate in both profit before tax and profit after tax. [See Annexes Table 7]

(a) Return on Assets and Return on Equity

The banking sector's after-tax return on equity (ROE) and before-tax return on assets (ROA) declined marginally during the review period. The slower growth in before and after tax profit despite the stronger growth in assets and equity in 2018 relative to 2017 contributed to the overall decline in the two profitability indicators. Both indicators declined by 20 basis points during the review period, from 18.7 percent to 18.5 percent in the case of ROE, while ROA dipped from 3.6 percent to 3.4 percent. [See Annexes Table 6]

(b) Interest Margin and Spread

Broad decline in interest rates resulted in lower gross yields for the banking sector, and contributed to the narrowing of interest spreads between December 2017 and December 2018. The industry's asset utilisation ratio also declined during the review period, an indication that for every unit of asset utilised by the banks', less income was generated. The contraction in banks' gross income outweighed the stronger asset growth in 2018 and accounted for the decline in the ratio of gross income to total assets (asset utilisation) to 14.7 percent in December 2018 from 16.7 percent a year ago. Similarly, interest margin to total assets declined to 7.1 percent from 7.9 percent while interest margin to gross income increased to 48.7 percent from 47.3 percent over the same review period. [See Annexes Table 6]

(c) Composition of Banks' Income

During the period under review, banks' substituted earnings lost from interest income with non-interest income. Non-interest sources of income gained greater prominence in banks' total earnings, with a share of 21.3 percent in 2018, compared with a share of 16.5 percent a year ago. The proportion of banks' income earned from fees & commissions went up to 12.6 percent from 10.9 percent during the period under review while the share of other income including gains on foreign exchange dealings went up to 8.7 percent from 5.6 percent. Although interest income constituted the largest share of total income for the banking industry, the share of interest income from loans declined to 36.4 percent in December 2018 from 43.9 percent in December 2017, largely reflecting the slowdown in credit growth within the banking industry. The share of interest income from investments in total income has however moved up to 42.4 percent from 39.6 percent during the period under review.

Financial Soundness Indicators (FSIs)

3.3.4 Operational Efficiency

The banking industry's efficiency indicators broadly improved, with banks incurring less cost for every unit of income generated or asset utilised. The industry's cost to total assets ratio declined to 12.1 percent in December 2018 from 14.4 percent in December 2017, while the cost to income ratio declined to 84.3 percent from 86.3 percent during the same period, pointing to some improvement in the industry's overall efficiency. Banks' operational cost to total assets ratio also declined to 7.8 percent in December 2018 from 8.4 percent in December 2017. However, operational cost to gross income ratio increased to 54.1 percent from 50.1 percent during the period under review, due to a slowdown in the growth of the industry's gross income.

3.4 Banks' Counterparty Relationships

Banks recorded some moderation in exposure to cross-border risks in December 2018 relative to the same period last year, with a decline in the ratio of off-shore balances to banks' net worth. The increase in banks' borrowings from external sources was however an indication of elevated cross-border risks within the banking industry.

(a) Developments in Banks' Offshore Balances & External Borrowing

Growth in banks' offshore balances picked up to 10.8 percent in December 2018 from 8.5 percent in December 2017. The banking sector's off-shore balances of GH¢8.15 billion as at end-December 2018 comprised placements with foreign counterparties as well as balances in nostro accounts. Nostro balances remained unchanged between December 2017 and December 2018, following a contraction by 9.0 percent in the previous year. Growth in placements however, moderated within the review period, declining to 21.4 percent from 33.4 percent. Following the injection of capital by the banks, the ratio of offshore balances to net worth declined to 48.2 percent in December 2018 from 59.9 percent in December 2017, signifying some moderation in the industry's exposure to cross-border risks. [See Annexes Table 8]

Banks' borrowings from external counterparties grew by 71.0 percent year-on year to GH¢7.18 billion as at end-December 2018. This followed a growth of 7.6 percent recorded in the previous year. Subsequently, the share of banks' borrowing from external sources in total borrowings increased from 24.8 percent in December 2017 to 48.4 percent in December 2018. A greater percentage of these funds were short-term in nature with the proportion of banks' short-term borrowing in total external borrowing increasing from 57.4 percent in December 2017 to 60.3 percent in December 2018.

4. CREDIT CONDITIONS SURVEY

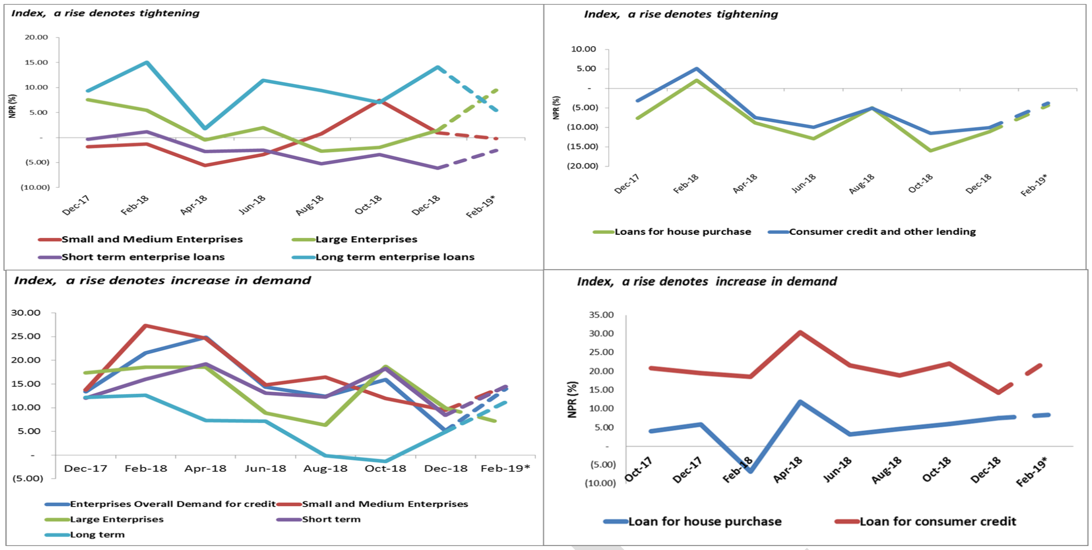
Results from the December 2018 credit conditions survey indicated a net tightening in overall credit stance on loans to enterprises, relative to the reported stance in October 2018. This was attributed to net tightening credit stance on loans to large enterprises and short-term enterprise loans. There was however a net ease in banks' credit stance on loans to Small and Medium Enterprises (SMEs), as well as short-term enterprise loans. Banks projected a net ease in overall credit stance on loans to enterprises by end-February 2019 on account of net ease in credit stance on long-term enterprise loans as well as SME loans.

Banks maintained a loose credit stance on loans to households during the December 2018 survey round, although there was a net tightening in the credit stance on loans for house purchases and consumer credit relative to the October 2018 survey round. Banks projected further tightening of credit stance on consumer loans and loans for house purchases in the subsequent two months.

Results of the December 2018 survey indicated a decline in overall demand for loans by corporates between November and December 2018 driven by declines in demand for loans by large enterprises and a dip in demand for short-term loans. Banks however anticipated a pickup in demand for loans by corporates two months on, with demand for loans by SMEs as well as demand for short and long term loans projected to increase. Similarly, banks projected an increase in demand for household loans by end-February 2019, relative to December 2018. This was expected to be reflected in demand for both consumer and mortgage loans. Banks however recorded declines in demand for consumer credit and mortgages during the December 2018 survey.

Inflation expectations remained well-anchored throughout 2018 with a marginal uptick in the one-year inflation expectations index from 11.2 percent in the October 2018 survey to 11.3 percent during the December 2018 survey. The marginal uptick in inflation expectations, one year ahead, was explained by the recent observed volatility in exchange rates. However, banks' expectations for lending rates in a year's time declined from 22.2 percent in October 2018 to 21.8 percent as reflected by December 2018 survey results. The contraction in NPLs as well as the increase in capital within the sector informed banks' decisions to revise lending rates expectations downwards.

Credit Conditions Survey Results

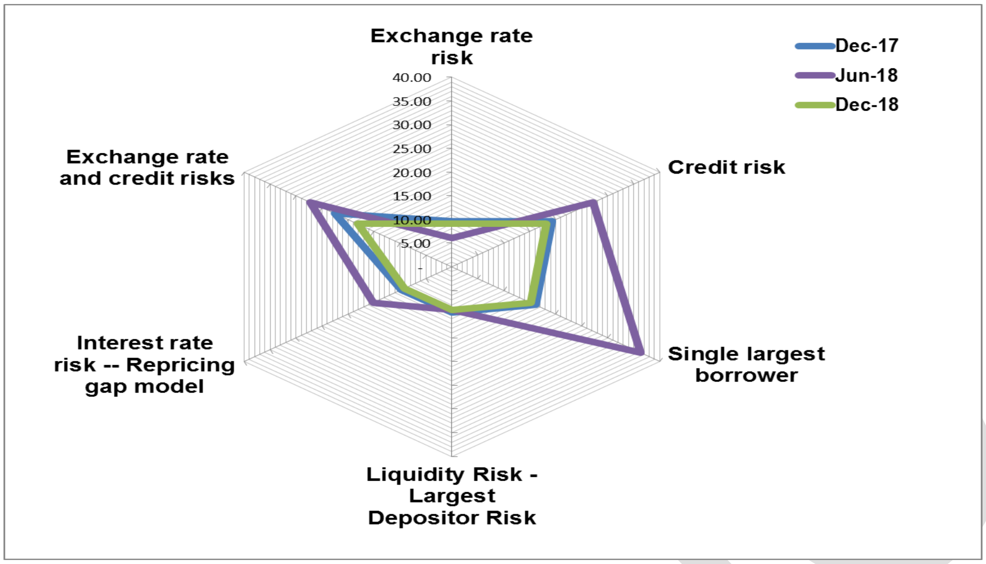


5. STRESS TEST OF THE BANKING SECTOR

The Bank of Ghana conducts stress tests on banks' balance sheet and income statement periodically to evaluate the robustness of banks to extreme but plausible shocks covering credit, market and liquidity risks. The latest exercise was conducted using the banks' December 2018 prudential returns. The results of the stress testing exercise revealed that the banking sector was broadly resilient to shocks and well-capitalized to absorb losses that can potentially be induced by extreme events such as currency depreciation, asset quality downgrade, an unexpected withdrawal of funds by a single largest depositor, extreme interest rate repricing and default by single largest borrowers.

The sector appeared even more robust to shocks compared to the stress tests conducted on banks in December 2017 and June 2018 financial results (see Risk Assessment Map below). This was due mainly to improved capital buffers within the banking sector. Generally, the improvement in the overall performance of the banking sector's stress test was a result of the positive domestic macroeconomic environment in 2018 and the widespread reforms undertaken by the Bank of Ghana to strengthen the banking sector, especially through recapitalization, enforcement of the loan-write off directive, enhancement in corporate governance systems as well as the orderly resolution of distressed banks.

Risk Assessment Map[4]



Source: BOG Financial Stability Department

6. CONCLUSION AND OUTLOOK

The performance of the banking industry broadly improved in December 2018 compared with the performance in December 2017. The industry has started to show signs of recovery following the completion of the recapitalisation exercise and implementation of reforms to address weak and insolvent institutions within the sector. Results of the stress test conducted in December 2018 indicated the industry was more resilient and better able to absorb shocks than it was a year ago. Favourable changes were also observed in the financial soundness indicators with ratios such as the NPL ratio, and the capital adequacy ratio recording improvements over last year's positon.

Following the injection of new capital by the banks, the sector is projected to bounce back more strongly with increases in credit, corroborated by the results of the recent credit conditions survey. Banks will however be closely monitored to ensure they adhere to sound risk management practices in their operations. The outlook for the industry therefore remains positive in the short to medium term.

[4] The Risk Assessment Map is derived from the result of the stress testing and constructed such that movements away from the origin pointed to increased vulnerability.

ANNEXES

Table 1: Asset and Liability Structure of the Banking Sector	Dec-15	Dec-16	Dec-17	Oct-18	Dec-18
Components of Assets (% of Total)					
Cash and Due from Banks	26.4	27.0	26.0	23.7	27.6
Investments	22.6	27.7	30.5	40.3	35.6
Net Advances	42.7	37.7	33.6	28.7	29.6
Other Assets	4.8	3.9	5.3	3.6	3.4
Fixed Assets	3.4	3.6	4.4	3.6	3.8
Components of Liabilities & Shareholders Funds(% of Total)					
Total Deposits	65.1	63.8	62.2	63.4	63.6
Total Borrowings	15.0	16.6	18.1	17.0	13.8
Other Liabilities	5.4	6.2	6.6	6.6	6.8
Shareholders' Funds	14.5	13.3	13.1	13.1	15.8

Table 2: Gross Loans and Real Credit Growth

	Dec-15	Dec-16	Dec-17	Oct-18	Dec-18
Gross Loans and Advances (GH¢m)	30,102.39	35,409.01	37,934.32	35,525.98	36,543.14
Real Growth (y-o-y)	6.13	1.89	(4.19)	(15.47)	(11.95)
Private Sector Credit (GH¢m)	26,258.63	30,222.08	34,578.98	32,819.40	33,398.41
Real Growth (y-o-y)	5.65	-0.31	2.32	-11.58	-11.72
Household Loans (GH¢m)	4,477.86	4,754.57	5,941.06	8,634.58	8,359.94
Real Growth (y-o-y)	(8.2)	(8.0)	11.7	34.4	28.6

Table 3: Contingent Liability

	Dec-15	Dec-16	Dec-17	Oct-18	Dec-18
Contingent Liabilities (GH¢)	7,385.9	7,374.6	9,315.5	9,347.7	10,062.0
Growth (y-o-y)	10.8	- 0.2	22.0	6.1	18.4
% of Total Liabilities	13.6	10.3	11.5	10.1	11.1

Table 4: Distribution of Loans and NPLs By Economic Sector (Percent)

	Dec-16		Dec-17		Oct-18		Dec-18	
	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs
a. Public Sector	**14.9**	**3.2**	**8.8**	**5.9**	**7.6**	**4.5**	**8.6**	**2.9**
i. Government	1.6	1.4	1.3	1.1	2.6	0.8	3.0	1.0
ii. Public Institutions	5.6	0.1	2.4	0.4	0.8	0.3	1.2	0.3
iii. Public Enterprises	7.6	1.7	5.1	4.5	4.2	3.4	4.4	1.6
b. Private Sector	**85.1**	**96.8**	**91.2**	**94.1**	**92.4**	**95.5**	**91.4**	**97.1**
i. Private Enterprises	70.1	92.1	74.0	88.0	66.2	83.7	66.3	87.0
o/w Foreign	9.0	13.2	9.4	8.3	9.3	10.5	9.9	9.6
Indigeneous	61.2	78.9	64.5	79.7	56.9	73.2	56.4	77.4
ii. Households	13.4	4.4	15.7	5.5	24.3	11.3	22.9	9.4
iii. Others	1.6	0.3	1.5	0.6	1.9	0.6	2.2	0.6

Table 5: Liquidity Ratios

	Dec-15	Dec-16	Dec-17	Oct-18	Dec-18
Liquid Assets (Core) - (GH¢'million)	16,752.6	22,316.2	24,308.8	25,216.18	29,591.4
Liquid Assets (Broad) -(GH¢'million)	30,679.4	44,767.5	52,457.5	67,630.10	67,353.4
Liquid Assets to total deposits (Core)-%	40.6	42.4	41.8	37.42	43.3
Liquid Assets to total deposits (Broad)- %	74.4	85.0	90.1	100.37	98.6
Liquid assets to total assets (Core)- %	26.4	27.0	26.0	23.71	27.6
Liquid assets to total assets (Broad)- %	48.4	54.2	56.0	63.60	62.7

Table 6: Profitability Indicators (%)

	Dec-16	Dec-17	Oct-18	Dec-18
Gross Yield	27.1	21.2	13.1	15.5
Int Payable	12.1	9.2	5.0	5.9
Spread	15.0	12.0	8.1	9.6
Asset Utilitisation	17.5	16.7	11.7	14.7
Interest Margin to Total Assets	8.2	7.9	5.7	7.1
Interest Margin to Gross income	46.9	47.3	48.9	48.7
Profitability Ratio	12.1	13.7	15.6	15.6
Return On Equity (%) after tax	17.6	18.7	17.6	18.5
Return On Assets (%) before tax	3.8	3.6	3.3	3.4

Table 7: DMBs' Income Statement Highlights

	Dec-16	Dec-17	Oct-18	Dec-18	Dec-17	Dec-18
	(GH ¢'million)				Y-on-y Growth (%)	
Interest Income	12,200.2	13,037.6	9,874.5	12,130.4	6.9	(7.0)
Interest Expenses	(5,429.7)	(5,646.6)	(3,770.7)	(4,631.5)	4.0	(18.0)
Net Interest Income	**6,770.5**	**7,391.0**	**6,103.8**	**7,498.8**	9.2	1.5
Fees and Commissions (Net)	1,501.9	1,692.1	1,590.2	1,939.8	12.7	14.6
Other Income	741.8	877.0	1,025.1	1,332.4	18.2	51.9
Operating Income	**9,014.2**	**9,960.1**	**8,719.1**	**10,771.0**	10.5	8.1
Operating Expenses	**(4,855.4)**	**(5,439.1)**	**(4,697.0)**	**(5,771.5)**	12.0	6.1
Staff Cost (deduct)	(2,536.2)	(2,736.1)	(2,470.7)	(3,015.9)	7.9	10.2
Other operating Expenses	(2,319.2)	(2,703.0)	(2,226.3)	(2,755.7)	16.5	1.9
Net Operating Income	**4,158.8**	**4,521.0**	**4,022.1**	**4,999.5**	8.7	10.6
Total Provision (Loan losses, Depreciation & others)	(1,525.4)	(1,336.7)	(1,146.7)	(1,398.0)	(12.4)	4.6
Income Before Tax	**2,633.4**	**3,184.3**	**2,875.4**	**3,601.5**	20.9	13.1
Tax	(880.7)	(1,050.9)	(927.5)	(1,201.5)	19.3	14.3
Net Income	**1,752.7**	**2,133.4**	**1,948.0**	**2,400.0**	21.7	12.5
Gross Income	**14,443.9**	**15,606.7**	**12,489.8**	**15,402.5**	8.1	(1.3)

Table 8: Developments in Offshore Balances

	Dec-15	Dec-16	Dec-17	Oct-18	Dec-18
Offshore balances as % to Networth	53.41	61.75	59.94	69.76	48.17
Annual Growth in Offshore balances (%)	11.0	37.9	8.5	25.2	10.8
Annual Growth in Nostro Balances (%)	19.1	20.2	-9.0	-1.2	0.0
Annual Growth in Placement (%)	-2.5	75.0	33.4	59.4	21.4