BANK OF GHANA
Banking Sector Report

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1. PREFACE

The Bank of Ghana's Banking Sector Report is published after each 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 this document, Bank of Ghana aims to promote accountability for its decision making and promote transparency in the monetary policy formulation process.

Monetary Policy in Ghana

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 target band is consistent with the objective of attaining the desired long-term average rate of growth for the economy. Other objectives spelt out in the amended Bank of Ghana Act include promoting and maintaining a sound financial sector and payment systems through effective regulation and supervision. This is important for financial intermediation and to ensure that risks associated with financial markets are considered during the monetary policy formulation process.

Monetary Policy Strategy

To achieve the objective of price stability, Bank of Ghana was granted operational independence to employ the appropriate policy tools needed to stabilise inflation around the medium-term target. The Bank of Ghana's framework for conducting monetary policy is based on Inflation Targeting (IT) Framework, which entails the use of the Monetary Policy Rate (MPR) as the key policy tool that provides guidance on the monetary policy stance and also helps anchor inflation expectations.

The MPC Process and Operational Arrangements

The MPC is a statutorily constituted body under the Bank of Ghana Act 2016 (Act 930, *as amended*) to formulate monetary policy. The MPC consists of seven members — five members from the Bank of Ghana, including the Governor who acts as the Chairman of the Committee, and two external members. The MPC meets bi-monthly in the course of the year to assess economic conditions and risks to the inflation and growth outlook. The Committee, after assessing recent economic conditions and taking a forward-looking view of the evolution of key macroeconomic indicators, then votes to position the MPR through a process of consensus-building with each member assigning reasons for the stated or preferred direction of the policy rate. Each interest rate decision provides a signalling of the stance of monetary policy. The MPC meeting dates are determined well in advance and published on the Bank's website at the beginning of each year. In line with the transparency aspects of the framework, 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 Committee's decisions to the financial markets and the general public.

2. SUMMARY

This report details the performance of Ghana's banking sector during the first half of 2019 compared to the same period last year. The sector consists of 23 banks with 1,225 branches spread across the 16 regions of the country as at June 2019.

The half year performance showed that the banking sector was well-capitalised, solvent, liquid and profitable with improved financial sector indicators. Asset growth remained strong underpinned by sustained growth in deposits and higher capital levels. Also, credit growth post-recapitalisation continued to pick up alongside increased after-tax profits. Key Financial Soundness Indicators (FSIs) also improved in response to the banking sector reforms. The industry's Capital Adequacy Ratio (CAR) measures, both under Basel 1.5 and the new Bank of Ghana Capital Requirement Directive (CRD) under the Basel II/III capital framework remained well above the statutory minimum of 10 percent and 13 percent respectively, pointing to increased resilience of the sector following the recapitalisation. The higher CAR levels reflect a sufficiently solvent industry, with enhanced capacity to absorb shocks arising from the expected deepening in financial intermediation.

The industry's operational efficiency was broadly enhanced as costs relative to income and assets declined over the period, while key liquidity indicators also improved. Asset quality improved as the stock of Non-Performing Loans (NPLs) declined, contributing to a lower NPL ratio. The observed decline in NPLs was on the back of the on-going loan write-off policy and recoveries by some banks.

In the outlook, the banking sector is expected to remain strong with continued improvement in the key FSIs. Deposits growth is also projected to remain robust and together with the higher capital levels, drive credit growth. Going forward, improved financial intermediation will be supported by sustained efforts aimed at reducing the industry's stock of NPLs through write-offs, recoveries and intensified credit risk management practices on the part of the banks.

3. BANKING SECTOR DEVELOPMENTS

3.1 Banks' Balance Sheet

Banks' total assets amounted to GH¢112.82 billion as at end-June 2019, representing 12.4 percent year-on-year growth, compared to 15.7 percent growth recorded in the same period of 2018. Of the total, domestic assets increased by 10.3 percent while foreign assets grew by 40.4 percent, partly due to exchange rate effects. Accordingly, the share of domestic assets in total assets declined marginally to 91.2 percent from 93.0 percent in June 2018 [See Table 1].

Investment in bills and securities increased to GH¢43.52 billion at end-June 2019 from GH¢35.82 billion at end-June 2018, indicating an annual growth of 21.5 percent, lower than the 41.1 percent growth recorded for same period in 2018. The investment portfolio mix reflected banks' preference for high-yielding long-term securities and resolution bonds. Investments in long-term securities increased by 69.8 percent to GH¢27.21 billion during the period (See Table 1). Banks' investments in short-term bills, on the other hand, contracted by 18.0 percent to GH¢15.89 billion at end-June 2019, from 9.7 percent growth in June 2018. The growth in long-term investments (securities) was partly due to the issuance of bonds by Government to finance the gap between liabilities and selected assets of the two defunct banks taken over by GCB Bank and the seven banks acquired by Consolidated Bank Ghana (CBG).

Credit growth continued to pick up with loans and advances excluding provisions and interest in suspense (Net advances) increasing by 4.0 percent to GH¢33.94 billion in June 2019, from 3.5 percent growth a year earlier. Growth in the foreign currency component of net advances was higher at 25.5 percent, from GH¢9.42 billion in June 2018 to GH¢11.81 billion in June 2019, but partly reflected the depreciation of the Ghana Cedi over the period.

Following these developments, investments remained the largest component of the industry's assets with a share of 38.6 percent as at June 2019, up from 35.7 percent a year ago. The share of gross advances in total assets declined from 38.5 percent to 34.3 percent, while the share of net advances also recorded a dip from 32.5 percent to 30.1 percent over the period. The share of non-earning assets, comprising both fixed assets and other assets, declined pointing to greater efficiency in asset allocation. The share of fixed assets declined from 4.3 percent to 3.6 percent over the period, following a 6.7 percent year-on-year contraction partly due to rationalisation of branch networks following the consolidation of banks after the reforms. The share of other assets however dipped marginally from 3.9 percent to 3.7 percent during the period under review.

On funding sources, deposits increased by 22.3 percent to GH¢75.57 billion as at end-June 2019, with both domestic and foreign currency deposits outperforming the previous year's performance. The robust growth in deposits reflects increasing confidence and stability in the banking sector following the reforms. Domestic deposits, the largest component of total deposits grew by 22.5 percent on an annual basis to GH¢75.2 billion compared with 13.4 percent growth a year ago. Foreign currency deposits also grew strongly by 37.9 percent in June 2019 to GH¢21.63 billion against 6.8 percent growth recorded in June 2018, partly attributed to depreciation of the Ghana Cedi. The sustained growth in deposits pushed its share of banking sector's pool of funds from 61.6 percent to 67.0 percent during the period under review [See Table 1].

Banks' borrowings contracted by 17.9 percent to GH¢14.73 billion in June 2019 from GH¢17.95 billion in June 2018. This suggests less reliance on borrowings by banks to fund their assets on the back of growth in relatively cheaper deposits as well as the higher capital levels. The contraction in total borrowings was driven by sharp declines in domestic borrowings (both short-term and long-term), which was partially offset by the growth in foreign borrowings. Short-term domestic borrowings declined by

38.4 percent to GH¢6.44 billion at end-June 2019 while long-term domestic borrowings contracted by 68.4 percent to GH¢415.45 million during the same period. On the other hand, short-term and long-term foreign borrowings increased by 33.8 percent and 17.8 percent respectively to GH¢5.05 billion and GH¢2.82 billion during the period. Overall, the share of external funding for banks (comprising foreign borrowing and deposits of non-residents) in banks' pool of funds increased from 6.6 percent to 7.3 percent while domestic funding (domestic borrowing and domestic deposits, excluding capital) declined marginally from 79.2 percent to 78.5 percent over the same period.

The industry's capital base remains strong following the recapitalization exercise. Paid-up capital grew strongly by 58.4 percent to GH¢9.00 billion from GH¢5.69 billion, while total shareholders' funds (paid-up capital and reserves) increased by 14.2 percent to GH¢15.96 billion from GH¢13.98 billion during the review period. The share of paid-up capital in the industry's funding sources accordingly increased to 8.0 percent from 5.7 percent while the share of shareholders' funds increased marginally to 14.1 percent from 13.9 percent. Other Liabilities constituted a lower share of 5.8 percent of banks' funding in June 2019 compared with 6.6 percent a year ago, with a 1.2 percent year-on-year contraction partly due to the consolidation within the industry after the reforms. Overall, the banking sector's balance sheet position has turned out a strong half-year performance with increased growth in deposits coming on the heels of the recapitalisation exercise. [See Table 1].

Table 1: Key Developments in DMBs' Balance Sheet

	GH¢ million				Y-on-Y Growth (%)			Shares (%)		
	Jun-17	Jun-18	Apr-19	Jun-19	Jun-18	Apr-19	Jun-19	Jun-18	Apr-19	Jun-19
TOTAL ASSETS	**86,717.99**	**100,348.65**	**109,912.2**	**112,817.23**	**15.7**	**12.4**	**12.4**	**100.0**	**100.0**	**100.0**
A. Foreign Assets	6,887.27	7,060.38	9,080.2	9,914.35	2.5	19.4	40.4	7.0	8.3	8.8
B. Domestic Assets	79,830.72	93,288.27	100,831.9	102,902.88	16.9	11.8	10.3	93.0	91.7	91.2
Investments	25,388.83	35,823.04	44,391.0	43,522.99	41.1	26.5	21.5	35.7	40.4	38.6
i. Bills	17,662.50	19,369.45	15,593.6	15,885.43	9.7	(19.5)	-18.0	19.3	14.2	14.1
ii. Securities	7,302.94	16,022.77	28,378.9	27,213.67	119.4	85.4	69.8	16.0	25.8	24.1
Advances (Net)	31,534.59	32,648.87	32,769.4	33,942.05	3.5	6.3	4.0	32.5	29.8	30.1
of which Foreign Currency	8,963.54	9,415.06	11,498.3	11,812.86	5.0	33.8	25.5	9.4	10.5	10.5
Gross Advances	37,510.76	38,670.34	37,775.2	38,666.90	3.1	2.8	0.0	38.5	34.4	34.3
Other Assets	4,481.47	3,913.79	3,911.3	4,214.25	(12.7)	(14.0)	7.7	3.9	3.6	3.7
Fixed Assets	3,177.71	4,363.32	4,034.2	4,072.54	37.3	(3.9)	-6.7	4.3	3.7	3.6
TOTAL LIABILITIES AND CAPITAL	**86,717.99**	**100,348.65**	**109,912.2**	**112,817.23**	**15.7**	**12.4**	**12.4**	**100.0**	**100.0**	**100.0**
Total Deposits	54,484.86	61,778.44	73,088.7	75,571.75	13.4	19.7	22.3	61.6	66.5	67.0
of which Foreign Currency	14,689.22	15,686.79	19,328.0	21,625.55	6.8	28.2	37.9	15.6	17.6	19.2
Total Borrowings	15,690.55	17,949.77	14,602.4	14,729.88	14.4	(11.0)	-17.9	17.9	13.3	13.1
Foreign Liabilities	5,196.72	6,580.40	8,024.2	8,240.09	26.6	35.4	25.2	6.6	7.3	7.3
i. Short-term borrowings	2,819.75	3,769.72	4,852.6	5,045.49	33.7	42.9	33.8	3.8	4.4	4.5
ii. Long-term borrowings	2,008.65	2,397.43	2,735.4	2,824.63	19.4	28.7	17.8	2.4	2.5	2.5
iii. Deposits of non-residents	368.32	413.25	436.3	369.97	12.2	7.2	-10.5	0.4	0.4	0.3
Domestic Liabilities	70,407.57	79,429.74	86,379.5	88,616.44	12.8	11.1	11.6	79.2	78.6	78.5
i. Short-term borrowing	9,438.50	10,466.75	6,516.6	6,444.31	10.9	(31.7)	-38.4	10.4	5.9	5.7
ii. Long-term Borrowings	1,423.65	1,315.86	497.8	415.45	(7.6)	(63.1)	-68.4	1.3	0.5	0.4
iii. Domestic Deposits	54,116.54	61,365.19	72,652.4	75,201.78	13.4	19.7	22.5	61.2	66.1	66.7
Other Liabilities	5,459.03	6,635.48	6,712.7	6,554.98	21.6	2.5	-1.2	6.6	6.1	5.8
Paid-up capital	4,230.79	5,684.55	8,902.2	9,004.26	34.4	70.5	58.4	5.7	8.1	8.0
Shareholders' Funds	11,078.97	13,980.20	15,508.4	15,960.63	26.2	12.9	14.2	13.9	14.1	14.1

Source: Bank of Ghana

3.1.1 Asset and Liability Structure

The asset structure of the sector's balance sheet in June 2019 has not changed significantly from the observed pattern in 2018. Investments (bills and securities) remain the major asset component; its share increased to 38.6 percent in June 2019 from 35.7 percent a year earlier. This was followed by net advances with a share of 30.1 percent, a marginal dip from the 32.5 percent recorded in the same period last year. Cash and Due from Banks represented the third major component of assets, with its share increasing marginally from 23.4 percent in June 2018 to 23.9 percent in June 2019. The shares of fixed assets and other assets moderated to 3.6 percent and 3.7 percent from 4.3 percent and 3.9 percent respectively during the period under review [See Annexes Table 1].

The share of total deposits in banks' total liabilities and capital increased to 67.0 percent in June 2019 from 61.6 percent a year earlier, following the strong growth in deposits. Again, the share of banks' total borrowings declined to 13.1 percent from 17.9 percent during the review period, following the contraction in borrowings. Shareholders' funds constituted 14.1 percent of the industry's liabilities and capital in June 2019, slightly higher than the 13.9 percent recorded in June 2018, while other liabilities accounted for 5.8 percent from 6.6 percent during the same review period [See Annexes Table 1].

3.1.2 Share of Banks' Investments

The share of banks' investment in favour of long-term securities was 62.5 percent as at end-June 2019, up from 44.7 percent at the previous year's position. The increase in the share of long-term securities in banks' investments was influenced by banks' preference for high yielding longer-dated securities. The share of short-term bills in total investments accordingly declined to 36.5 percent from 54.1 percent. The proportion of the industry's investments in equities moderated from 1.2 percent to 1.0 percent during the period under review.

3.2 Credit Risk

Asset quality improved as the industry's NPL ratio declined in June 2019 compared with the same period last year on the back of implementation of Bank of Ghana's loan write-off policy as well as loan recovery efforts by banks. As banks continue to align credit risk frameworks with the new Capital Requirement Directive issued in 2018, credit risk exposure is expected to decline further.

3.2.1 Credit Portfolio Analysis

Gross loans and advances (excluding loans under receivership) was GH¢38.7 billion in June 2019, unchanged from June 2018.[1] In real terms, gross loans and advances contracted by 8.4 percent in June 2019, reflecting the impact of the loans under receivership, compared to the 6.3 percent contraction in June 2018. In nominal terms, the stock of credit to the private sector (comprising private enterprises and households) grew by 1.9 percent to GH¢35.08 billion in June 2019 compared with the 4.8 percent annual growth in June 2018.[2] In real terms, private sector credit (excluding those under receivership) contracted by 6.6 percent in June 2019 compared with a contraction of 4.7 percent a year ago. Credit to households amounted to GH¢8.41 billion in June 2019 compared with GH¢6.29 billion in the same period last year, indicating an annual growth of 10.5 percent. Real growth in credit to households was 1.3 percent in June 2019, lower than the 11.9 percent growth in June 2018 [See Annexes Table 2].

The share of private sector credit increased marginally to 90.7 percent in June 2019 from 88.9 percent in June 2018. Of the total, the share of private enterprises was 66.4 percent in June 2019 compared with 67.6 percent a year ago. The proportion of households' credit in the industry's credit increased to 21.7 percent in June 2019 compared with 19.6 percent a year ago, while the share of credit to 'other' private entities increased to 2.5 percent from 1.7 percent during the same comparative period [See Annexes Table 4].

[1] Accounting for all loans and advances under receivership, **growth in Gross loans and advances was 18.3 percent.**

[2] Private sector credit grew in nominal terms by 21.9 percent if the private sector loans and advances under receivership are included.

The increased share of private sector credit in June 2019 was associated with a decline in the share of credit to the public sector comprising government, public institutions and public enterprises. The share of credit to the public sector declined from 11.1 percent in June 2018 to 9.3 percent in June 2019, largely from the decline in the share of industry's credit to public enterprises. Credit to public enterprises recorded a decline in its share from 7.5 percent to 3.8 percent during the period. The portion of the banking industry's credit to public institutions and government, however, increased marginally from their respective shares of 1.0 percent and 2.6 percent to 1.7 percent and 3.9 percent over the period [See Annexes Table 4].

In terms of credit allocation to economic sectors, the commerce and finance sector received the highest share of 22.9 percent of total credit as at end-June 2019, followed by the services sector with a share of 22.1 percent. The manufacturing sector was the third largest recipient of the industry credit accounting for 11.6 percent while the electricity, water and gas sector received 9.2 percent. The lowest share of the industry's credit of 3.6 percent went to the mining and quarrying sector while agriculture, forestry and fishing sector received 4.5 percent. The three highest sectoral recipients (commerce and finance, services and manufacturing) had a combined share of 56.6 percent of the industry's outstanding credit balances compared with 53.3 percent the previous year, while the lowest three recipients (mining and quarrying, agriculture, forestry and fishing, and construction) accounted for 16.0 percent from 17.6 percent during the same review period [See Figure 1].

3.2.2 Off-Balance Sheet Activities

The off-balance sheet activities of banks, largely comprising trade finance and guarantees, generally slowed in June 2019 compared with the same period a year ago. The industry's contingent liabilities amounted to GH¢9.96 billion as at June 2019 compared with GH¢8.92 billion in June 2018, translating into a lower year-on-year growth rate of 9.7 percent, from the 20.0 percent growth recorded over the same comparative period. The ratio of banks' contingent liabilities to total liabilities remained unchanged at 10.3 percent in June 2019 compared with the same period a year ago [See Annexes Table 3].

3.2.3 Asset Quality

The industry's asset quality improved significantly during the period under review. The stock of the industry's Non-Performing Loans (NPLs) declined significantly from GH¢8.74 billion in June 2018 to GH¢6.99 billion in June 2019, representing a contraction of 20.0 percent compared with the 9.7 percent growth recorded a year earlier. The decline in the stock of NPLs coupled with the marginal pick-up in credit growth translated into a lower NPL ratio of 18.1 percent in June 2019 from 22.6 percent a year ago. When adjusted for the fully-provisioned loan loss category, the NPL ratio declined to 9.0 percent from 12.3 percent, signalling a slowdown in deterioration of loan quality.

The private sector accounted for 97.6 percent of the industry's NPLs in June 2019, up from the 89.9 percent recorded in June 2018, while the public sector's contribution declined to 2.4 percent from 10.1 percent over the same comparative period. Indigenous private enterprises accounted for 74.6 percent of total NPLs in June 2019, slightly below the 75.4 percent share recorded in the same period in 2018, while the contribution of foreign enterprises increased to 9.0 percent from 7.5 percent. The share of households in industry NPLs increased from 6.3 percent to 11.7 percent during the period under review, partly due to their increasing share of industry credit [See Annexes Table 4].

The banking industry NPLs across the various economic sectors continued to reflect the industry's sectoral credit allocation, with commerce and finance, the largest recipient of industry credit, accounting for 24.2 percent of NPLs. The services sector, the second highest recipient of the industry's credit also had the second highest share of the industry's NPLs of 16.4 percent. Manufacturing and electricity, water and gas sectors had respective shares of 16.2 percent and 15.6 percent of the industry's impaired loans. The lowest recipient of banking industry credit, mining and quarrying, also had the least share of industry NPLs of 2.0 percent. Overall, the top three largest contributors to the industry's NPLs (commerce & finance, services and manufacturing) accounted for 56.8 percent in June 2019; while the three lowest contributors (mining & quarrying, transport, storage & communication and construction) accounted for 14.8 percent during the review period [See Figure 1]. Analysis of the proportion of loans impaired in each sector showed that with the exception of agriculture, forestry & fishing sector, all other sectors improved in June 2019 compared with June 2018. The share of loans to the agriculture, forestry & fishing sector that were classified as impaired increased marginally to 34.3 percent in June 2019 from 33.9 percent a year ago.

Although electricity, water and gas sector had the highest proportion of loans impaired, the NPL ratio declined to 30.8 percent in June 2019 from 41.4 percent in June 2018, while NPL ratio of the manufacturing sector also declined to 25.3 percent from 32.8 percent during the same review period. The mining and quarrying sector recorded a significant decline in the NPL ratio to 10.1 percent from 24.8 percent. The transport, storage & communication sector also recorded the second lowest industry NPL ratio of 10.9 percent as at end-June 2019 from 17.7 percent a year ago [See Figure 1].

Figure 1: Developments in Banks' Balance Sheet & Asset Quality

3.3 Financial Soundness Indicators

The key financial soundness indicators of the banking sector as at end-June 2019 shows broad improvements compared with the position a year ago.

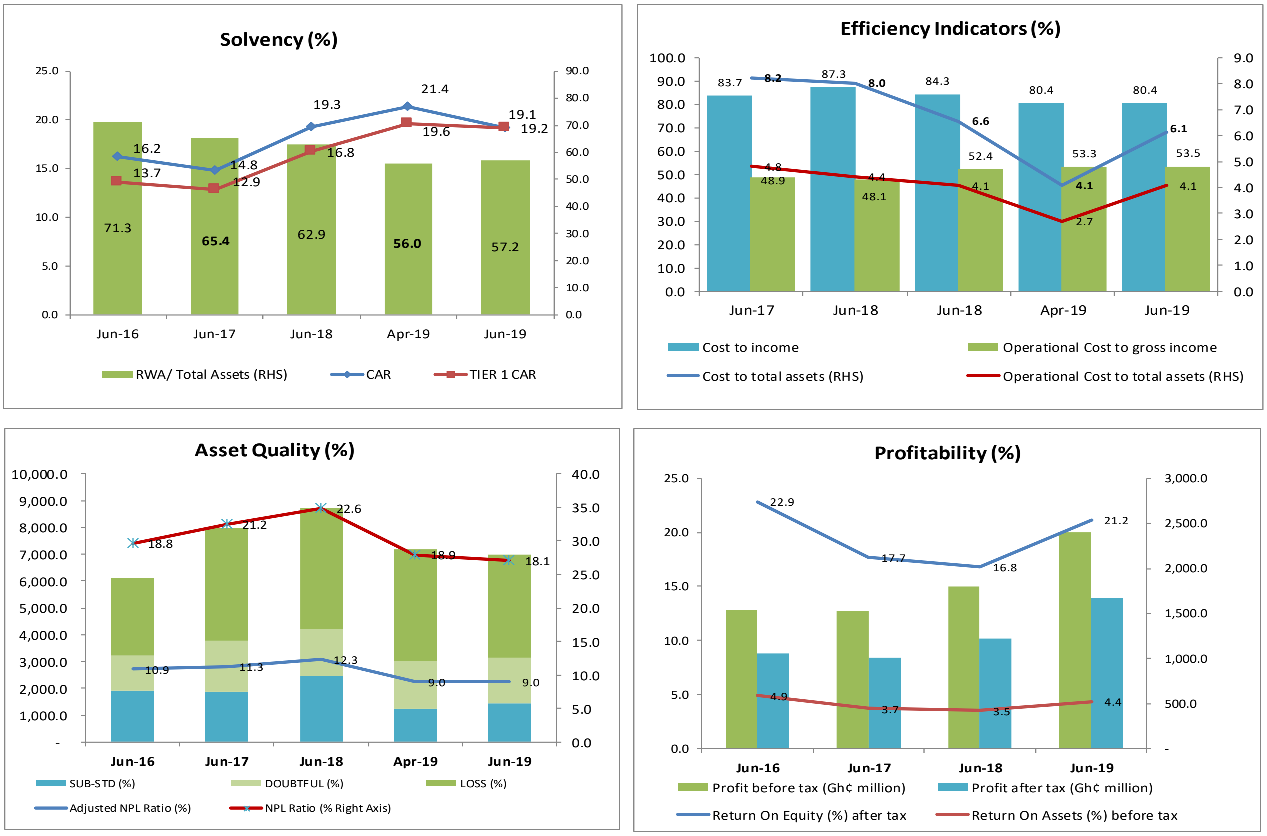
3.3.1 Liquidity Indicators

The banking sector remained liquid during the review period though some marginal changes were recorded in the indicators. The ratio of core liquid assets (mainly cash and due from banks) to total deposits declined marginally to 35.7 percent in June 2019 from 38.1 percent in June 2018. The decline in the ratio was due to the fact that total deposits increased while cash holdings of banks declined as banks shifted the asset mix into longer-dated earning assets [see Table 1]. Similarly, the ratio of broad liquid assets to total deposits also dipped to 92.7 percent in June 2019 from 95.4 percent in June 2018, also due to growth in total deposits. The ratio of core liquid assets to total assets on the other hand increased marginally to 23.9 percent from 23.4 percent, while the ratio of broad liquid assets to total assets rose to 62.1 percent from 58.7 percent over the same period [See Annexes Table 5].

3.3.2 Capital Adequacy Ratio (CAR)

The banking industry's solvency position also remained strong. The Capital Adequacy Ratio (CAR) was 19.1 percent in June 2019 compared to 19.3 percent in June 2018, and well-above the 10 percent statutory minimum. Under the new Bank of Ghana Capital Requirement Directive (CRD) which imposes more stringent criteria on the industry to ensure risks are properly aligned with capital, the industry's CAR was 16.3 percent, compared with the 13.0 percent prudential requirement (inclusive of a 3% buffer) under the Basel II/III capital framework. Banks' risk weighted assets (RWA) to total assets declined to 57.2 percent in June 2019 from 62.9 percent in June 2018 reflecting the increasing share of investments (which carries a lower risk rating) in banks' asset mix [See Figure 2].

Figure 2: Key Financial Soundness Indicators (FSIs)



3.3.3 Profitability

The profitability indicators of the banking sector improved during the first half of 2019 compared with the same period last year. The industry recorded an after-tax profit of GH¢1.67 billion, representing a year-on-year growth of 36.3 percent compared with 21.7 percent in the same period last year. The strong profit performance was underpinned by higher growth of net interest income. Net interest income grew by 20.7 percent reflecting both higher interest income from investments and lower interest expenses from reduced borrowings. Net fees and commissions grew by 3.7 percent, significantly below the 24.7 percent growth for the same period last year, attributable to the slowdown in the volume of off-balance sheet activities. Operational expenses grew by 7.6 percent, higher than the prior year's growth of 5.3 percent resulting from the sharp increase in staff cost to 30.8 percent growth from 5.6 percent contraction the year before. Other operating expenses however declined by 11.4 percent in June 2019 from a growth of 16.3 percent a year ago, somewhat moderating the growth in operating expenses. Total provisions (including loan loss provisions and fixed assets depreciation) grew by 20.5 percent, compared with the growth of 9.0 percent recorded for the same period a year earlier. In summary, the sector's profitability performance was enhanced by strong net interest income and cost control [See Annexes Table 7].

(a) Return on Assets and Return on Equity

The improved profitability performance during the half year positively reflected in the main indicators, namely, after-tax Return on Equity (ROE) and before-tax Return on Assets (ROA). The sector's ROE, computed as a ratio of after-tax net income to average shareholders' funds, increased to 21.2 percent in June 2019 from 16.8 percent in June 2018. Similarly, the ROA, measured as the ratio of net income before-tax to average total assets increased to 4.4 percent from 3.5 percent during the same period, pointing to improved profitability within the banking industry [See Figure 2 and Annexes Table 6].

(b) Interest Margin and Spread

Banks' interest spreads increased slightly to 5.6 percent in June 2019 from 5.3 percent a year ago mainly from a decline in interest payable on deposits and borrowings (from 3.6% to 2.9%), which offset the decline in gross yields from 8.8 percent to 8.5 percent. The ratio of gross income to total assets (asset utilisation) declined to 7.6 percent in June 2019 from 8.8 percent in June 2018, pointing to slight moderation in the incomes generated from banks' assets. The industry's interest margin to total assets however inched up marginally from 3.7 percent to 4.0 percent, whereas interest margin to gross income increased to 52.1 percent from 47.5 percent. The industry's profitability ratio also increased to 19.4 percent in June 2019 from 15.7 percent a year earlier, underscoring the stronger profit performance [See Annexes Table 6].

(c) Composition of Banks' Income

The composition of banks' income broadly reflected the shares of the various components of total assets. Thus, the share of investment income in banks' income rose in tandem with its share in total assets. Investment income (both short and long-term) constituted the largest source of income for banks, with its share increasing to 44.5 percent in June 2019 from 43.2 percent in June 2018. The share of income from loans declined to 34.5 percent from 36.2 percent during the period under review, following the decline in the share of loans in the industry's assets. The share of banks' income from commissions and fees also declined to 12.0 percent in June 2019 from 12.7 percent a year earlier due to the slowdown in off balance sheet activities observed earlier. Other income from ancillary banking services inched up to 9.0 percent of total income from 7.9 percent achieved during the same period in 2018 [See Figure 3].

3.3.4 Operational Efficiency

The banking industry's efficiency at minimizing costs relative to income and assets broadly improved during the review period. With the exception of operational cost to gross income which increased marginally to 53.5 percent in June 2019 from 52.4 percent a year earlier, and the operational cost to total assets which remained unchanged at 4.1 percent, the other operational efficiency indicators improved. The industry's cost to income ratio declined to 80.4 percent in June 2019 from 84.3 percent in June 2018. Cost to total assets also declined from 6.6 percent to 6.1

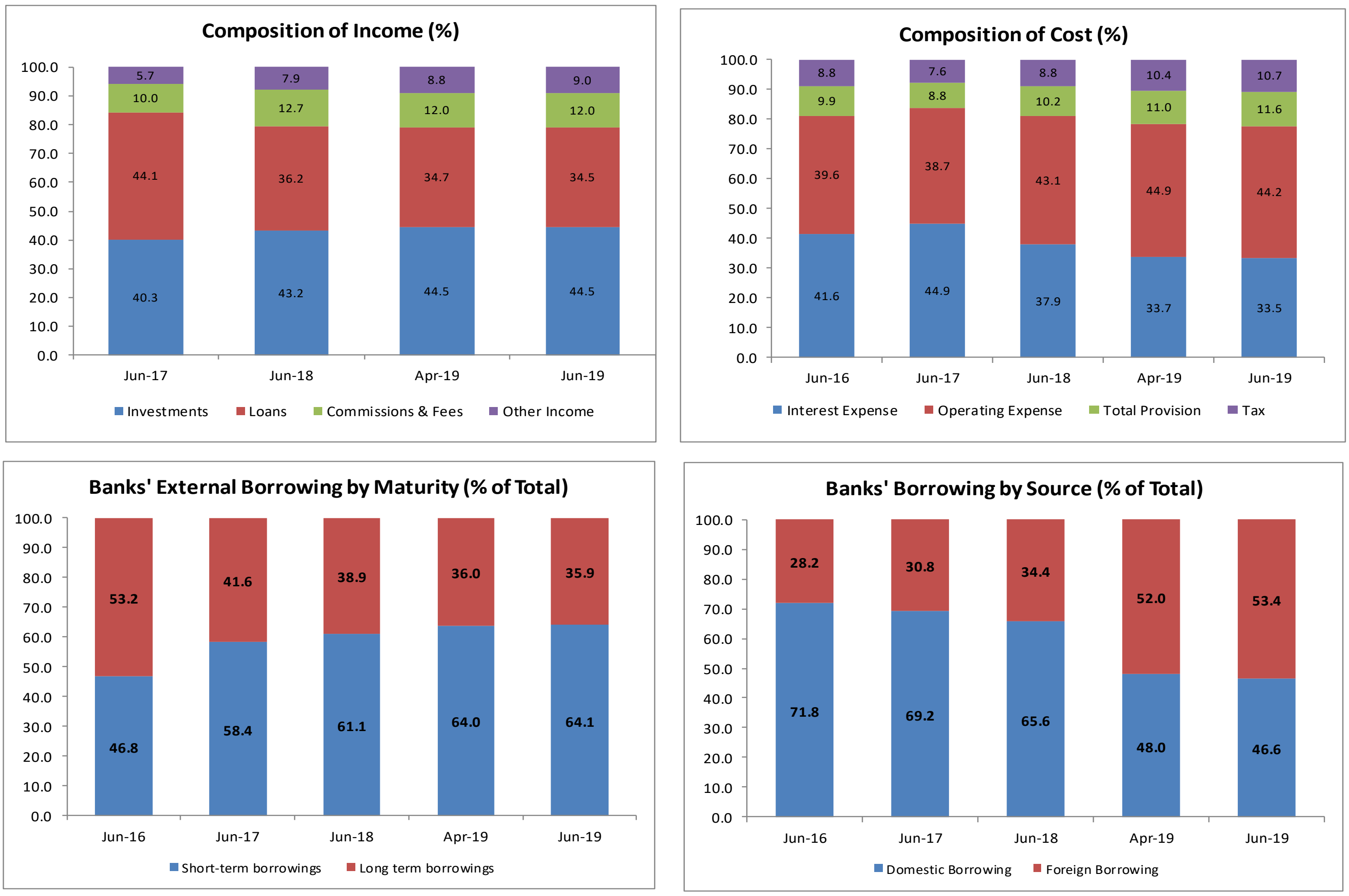
percent during the same comparative period [See Figure 2]. The efficiency gains in operating cost contributed to the improved industry profitability during the review period.

3.4 Banks' Counterparty Relationships

Banks' offshore balances increased to GH¢9.22 billion (41.7% y/y growth) in June 2019 from GH¢6.51 billion (2.0% y/y growth) in June 2018. The strong pick-up in banks' offshore balances came largely from the sharp growth in placements abroad by 82.8 percent in June 2019 compared with the 29.5 percent contraction a year ago. Growth in banks' nostro balances, comprising balances with foreign banks, however slowed by 13.8 percent from the 47.2 percent observed during the same comparative period. Accordingly, the ratio of banks' offshore balances to net worth increased to 57.8 percent in June 2019 from 46.5 percent in June 2018, pointing to the industry's growing exposure to cross-border risks [See Annexes Table 8].

The banking industry also borrowed more from foreign counterparties than domestic counterparties in June 2019 relative to June 2018. The share of banks' borrowing from foreign counterparties in total borrowed funds went up sharply to 53.4 percent in June 2019 from 34.4 percent in June 2018 while the share of domestically borrowed funds dropped to 46.6 percent from 65.6 percent during the same review period. The proportion of banks' short-term borrowing in total external borrowing increased to 64.1 percent in June 2019 from 61.1 percent in June 2018, while the share of long-term external borrowing declined to 35.9 percent from 38.9 percent over the same comparative period [See Figure 3].

Figure 3: Composition of Income, Cost and Borrowings



4. CREDIT CONDITIONS SURVEY

Banks' overall stance on loans to enterprises during the June 2019 Credit Conditions Survey round remained unchanged from the April 2019 survey position [See Figure 4]. There was however a net tightening in the stance on loans to SMEs over the two months. Banks further projected a marginal net tightening in the credit stance to enterprises over the next two months, driven by a net tightening in the credit stance on all loan categories with the exception of loans to SMEs.

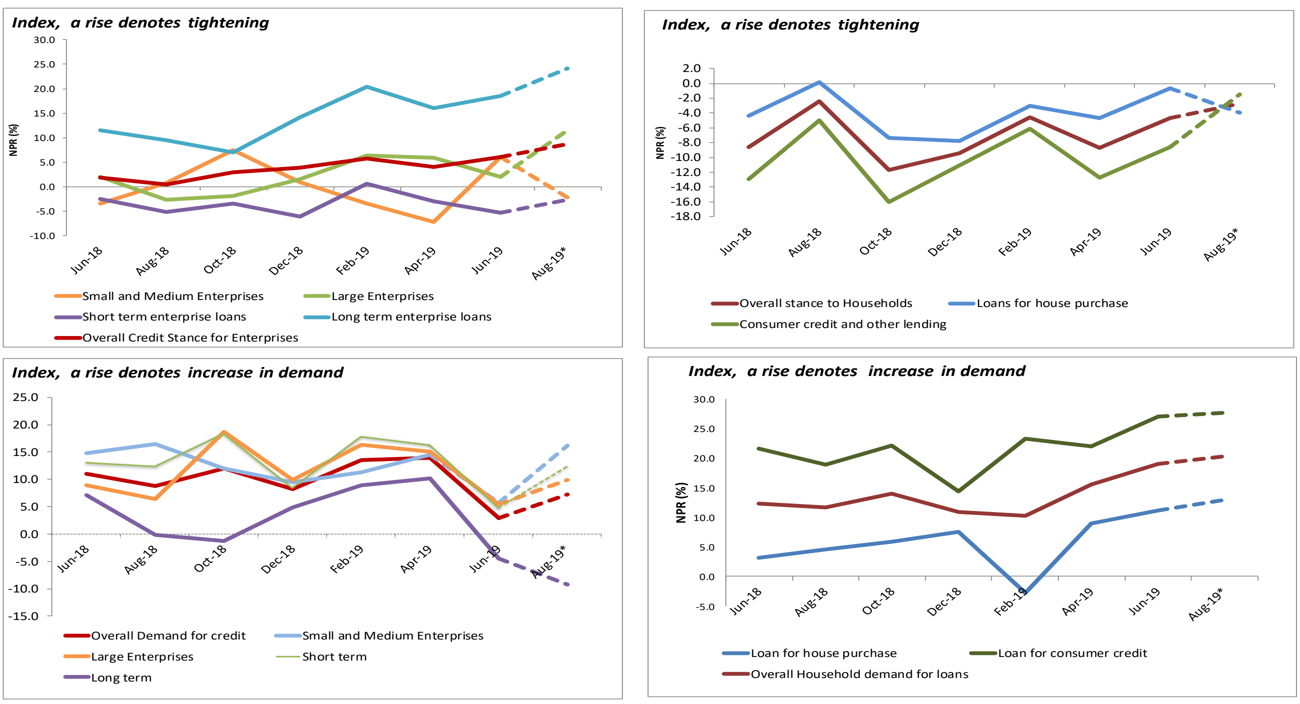
The survey findings also pointed to net tightening in banks' overall credit stance to households which reflected in both loans for house purchases and loans for consumer credit and other lending. Banks' overall credit stance on loans to households, is however projected to ease, driven by a softening in the credit stance on mortgages, on the back of expectations of a relatively stable currency in the next two months.

In terms of demand for credit, the survey results showed a decline in the overall demand for enterprise credit between April 2019 and June 2019. The decline in demand was reflected in all the sub-components of credit which similarly went down during the review period. With the exception of demand for long term loans however, banks expect an increase in demand for all categories of corporate loans over the next two months.

Findings of the survey further indicated an increase in demand for loans for house purchases and consumer credit, which translated into an increase in overall demand for household credit over the past two months. Banks projected further increases in household demand for loans over the next two months.

Regarding inflation and lending rate expectations, the banking sector's one-year inflation expectations index remained unchanged at 9.8 percent in June 2019, same as in April. Inflation expectations were however down from the 10.9 percent recorded a year earlier. Banks attributed the lower inflation expectations to the sustained single digit inflation over the past year, as well as expectations of improved performance of the economy. A marginal uptick in money market rates between April and June 2019, however, contributed to a marginal increase in banks' lending rate expectations over the past two months, although a year-on-year comparison indicated an unchanged position from June 2018.

Figure 4: Credit Conditions Survey Results



5. CONCLUSION AND OUTLOOK

The banking reforms and recapitalisation exercise continue to yield positive results. The sector's performance during the first half of 2019 shows that the industry remains well capitalised, solvent, liquid and profitable. The industry's assets size has witnessed sustained growth, underpinned by increasing deposits and paid-up capital. Profitability performance has also remained strong on the back of improved operational efficiency. Other key financial soundness indicators showed broad improvements in June 2019 compared with the same period in 2018. Asset quality although improving, continues to be a major concern. It is expected that banks' adherence to good credit risk management practices under the Basel II/III framework will contribute to reducing non-performing loans and deepen financial intermediation.

ANNEXES

Table 1: Asset and Liability Structure of the Banking Sector

	Jun-16	Jun-17	Jun-18	Apr-19	Jun-19
Components of Assets (% of Total)					
Cash and Due from Banks	25.2	25.4	23.4	22.50	23.9
Investments	24.0	29.3	35.7	40.39	38.6
Net Advances	41.9	36.4	32.5	29.81	30.1
Other Assets	4.9	5.2	3.9	3.56	3.7
Fixed Assets	3.8	3.7	4.3	3.67	3.6
Components of Liabilities & Shareholders Funds(% of Total)					
Total Deposits	63.0	62.8	61.6	66.5	67.0
Total Borrowings	16.5	18.1	17.9	13.3	13.1
Other Liabilities	6.2	6.3	6.6	6.1	5.8
Shareholders' Funds	14.3	12.8	13.9	14.1	14.1

Table 2: Gross Loans and Real Credit Growth

Gross Loans and Credit Growth

	Jun-16	Jun-17	Jun-18	Apr-19	Jun-19
Gross Loans and Advances (GH¢m)	32,460.09	37,595.75	38,713.76	37,824.08	38,699.81
Nominal Growth (y-o-y)	15.9	8.6	3.0	2.8	(0.0)
Real Growth (y-o-y)	(8.2)	3.3	(6.3)	(6.1)	(8.4)
Private Sector Credit (GH¢m)	30,350.80	34,582.42	36,246.91	34,007.59	35,082.31
Nominal Growth (y-o-y)	9.6	13.9	4.8	3.5	1.9
Real Growth (y-o-y)	-7.3	1.6	-4.7	-5.4	-6.6
Household Loans (GH¢m)	4,659.06	5,109.78	6,291.00	8,373.41	8,405.80
Nominal Growth (y-o-y)	15.5	9.7	23.1	16.4	10.5
Real Growth (y-o-y)	(2.4)	(2.2)	11.9	6.3	1.3

**** Excludes loans under Receivership***

Table 3: Contingent Liability

	Jun-16	Jun-17	Jun-18	Apr-19	Jun-19
Contingent Liabilities (GH¢)	6,518.9	7,339.3	8,919.9	9,032.3	9,961.2
Growth (y-o-y)	-	9.1	12.6	20.0	2.2	9.7
% of Total Liabilities	11.5	9.7	10.3	9.6	10.3

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

	Jun-17		Jun-18		Apr-19		Jun-19	
	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	**13.1**	**5.1**	**11.1**	**10.1**	**10.1**	**2.7**	**9.3**	**2.4**
i. Government	1.6	1.0	2.6	1.0	4.0	0.8	3.9	0.6
ii. Public Institutions	4.3	0.1	1.0	0.3	1.4	0.3	1.7	0.3
iii. Public Enterprises	7.2	4.0	7.5	8.8	4.6	1.6	3.8	1.5
b. Private Sector	**86.9**	**94.9**	**88.9**	**89.9**	**89.9**	**97.3**	**90.7**	**97.6**
i. Private Enterprises	71.2	89.3	67.6	82.9	65.2	84.0	66.4	83.6
o/w Foreign	8.9	12.1	7.9	7.5	9.9	8.9	10.3	9.0
Indigeneous	62.3	77.2	59.7	75.4	55.3	75.1	56.1	74.6
ii. Households	14.3	5.1	19.6	6.3	22.1	12.1	21.7	11.7
iii. Others	1.4	0.5	1.7	0.6	2.5	1.2	2.5	2.3

Table 5: Liquidity Ratios

	Jun-16	Jun-17	Jun-18	Apr-19	Jun-19
Liquid Assets (Core) - (GH¢'million)	16,154.9	22,014.6	23,520.43	24,725.5	26,983.0
Liquid Assets (Broad) -(GH¢'million)	32,072.3	46,980.1	58,912.65	68,698.1	70,082.1
Liquid Assets to total deposits (Core)-%	38.9	40.4	38.07	33.8	35.7
Liquid Assets to total deposits (Broad)- %	77.2	86.2	95.36	94.0	92.7
Liquid assets to total assets (Core)- %	24.4	25.4	23.44	22.5	23.9
Liquid assets to total assets (Broad)- %	48.4	54.2	58.71	62.5	62.1

Table 6: Profitability Indicators (%)

	Jun-16	Jun-17	Jun-18	Jun-19
Gross Yield	13.4	11.8	8.8	8.5
Interest Payable	5.5	5.5	3.6	2.9
Spread	7.8	6.3	5.3	5.6
Asset Utilitisation	9.8	9.2	8.8	7.6
Interest Margin to Total Assets	4.8	4.1	3.7	4.0
Interest Margin to Gross income	49.3	45.2	47.5	52.1
Profitability Ratio	16.3	12.6	15.7	19.4
Return On Equity (%) after tax	22.9	17.7	16.8	21.2
Return On Assets (%) before tax	4.9	3.7	3.5	4.4

Table 7: DMBs' Income Statement Highlights

	Jun-16	Jun-17	Jun-18	Jun-19	Jun-17	Jun-18	Jun-19
		(GH ¢'million)				Y-on-y Growth (%)	
Interest Income	6,431.0	6,722.1	6,198.0	6,780.4	4.5	(7.8)	9.4
Interest Expenses	- 2,705.0	- 3,125.2	- 2,494.9	- 2,311.2	15.5	(20.2)	(7.4)
Net Interest Income	**3,726.1**	**3,596.9**	**3,703.1**	**4,469.2**	**(3.5)**	**3.0**	**20.7**
Fees and Commissions (Net)	811.1	792.6	988.6	1,025.7	(2.3)	24.7	3.7
Other Income	390.4	450.7	616.5	771.8	15.5	36.8	25.2
Operating Income	4,927.6	4,840.3	5,308.3	6,266.6	(1.8)	9.7	18.1
Operating Expenses	- 2,534.3	- 2,690.3	- 2,833.8	- 3,048.7	6.2	5.3	7.6
Staff Cost (deduct)	- 1,361.0	- 1,350.0	- 1,274.4	- 1,667.5	(0.8)	(5.6)	30.8
Other operating Expenses	- 1,173.4	- 1,340.3	- 1,559.4	- 1,381.2	14.2	16.3	(11.4)
Net Operating Income	**2,393.2**	**2,150.0**	**2,474.5**	**3,217.9**	**(10.2)**	**15.1**	**30.0**
Total Provision (Loan losses, Depreciation & others)	-631.44	-616.62	-672.38	-810.47	(2.3)	9.0	20.5
Income Before Tax	**1,761.8**	**1,533.4**	**1,802.1**	**2,407.5**	**(13.0)**	**17.5**	**33.6**
Tax	- 511.5	- 528.6	- 579.1	- 740.3	3.3	9.5	27.9
Net Income	**1,250.3**	**1,004.7**	**1,223.1**	**1,667.1**	**(19.6)**	**21.7**	**36.3**
Gross Income	7,632.5	7,965.5	7,803.2	8,577.9	4.4	(2.0)	9.9

Table 8: Developments in Offshore Balances

	Jun-16	Jun-17	Jun-18	Apr-19	Jun-19
Offshore balances as % to Networth	54.9	57.6	46.5	54.2	57.8
Annual Growth in Offshore balances (%)	-11.6	24.1	2.0	20.1	41.7
Annual Growth in Nostro Balances (%)	-13.4	-19.8	47.2	-5.8	13.8
Annual Growth in Placement (%)	-8.5	100.6	-29.5	55.2	82.8