BANK OF GHANA

Banking Sector Report

MAY 2019

CONTENTS

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 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 financial intermediation and to ensure that risks associated with financial markets are not escalated and transmitted to the rest of the economy.

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) which allows the central bank to use 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 details developments and performance of Ghana's banking sector during the first four months of 2019 compared with the same period last year. The sector consists of twenty three (23) banks with a total number of 1,225 branches spread across the sixteen (16) regions of the country as at April 2019, compared with 1,546 in April 2018. The reduction in the number of branches is attributed to branch rationalisation following the banking sector reforms.

Asset growth of the industry remained strong underpinned by increased deposit mobilisation and high capital levels. Credit growth continued to pick up on the back of enhanced banks capital positions. Profitability indicators of the banking sector also improved over the first four months.

The resilience of the recapitalised industry has been enhanced with a Capital Adequacy Ratio (CAR) of 17.4 percent under the new Capital Requirement Directive (CRD) in the Basel II/III framework. This is indicative of the fact that banks are sufficiently solvent, even under more stringent capital adequacy criteria. The improved solvency position of the industry strengthens its capacity to absorb shocks as financial intermediation deepens going forward.

The reforms within the sector are reflecting positively on other key Financial Soundness Indicators of the banking sector. Operationally, the industry's effort at minimising costs relative to income and assets was enhanced as reflected in improved operational efficiency indicators over the review period. The enforcement of the loan write-off policy by Bank of Ghana has resulted in a gradual decline in the NPL ratio. Industry liquidity was adequate although marginal declines were observed in core liquidity indicators.

Broadly, the outlook for the sector is positive. Asset quality, despite its improvement over the period, however remains a key challenge. The Bank of Ghana is therefore working with the banks on tightening credit risk management practices required under the new Basel II/III framework to further support efforts at improving asset quality in the sector, while at the same time enhancing the overall efficiency of banks.

3. BANKING SECTOR DEVELOPMENTS

3.1 Banks' Balance Sheet

Total assets of the banking sector amounted to GH¢109.91 billion at end-April 2019, representing a year-on-year growth of 12.4 percent, compared to 15.7 percent growth in the same period of 2018. The increase in total assets was driven mainly by foreign assets which recorded a 19.4 percent growth partly due to exchange rate effects, while domestic assets increased by 11.8 percent. Accordingly, the share of domestic assets in total assets decreased marginally to 91.7 percent from 92.2 percent in April 2018.

Total investment in bills and securities grew by 26.5 percent from GH¢35.1 billion at end-April 2018 to GH¢44.4 billion at end-April 2019, lower than the 41.5 percent growth recorded for same period in 2018. The investment portfolio mix continues to be in favour of longer-dated instruments, partly reflecting banks' preference for high-yielding long-term securities as well as the issuance of the resolution bonds for the Consolidated Bank Ghana (CBG). Therefore, investments in long-term securities almost doubled from GH¢15.3 billion to GH¢28.4 billion during the period (See Table 1). Banks' investments in short-term bills, on the other hand, contracted by 19.5 percent to GH¢15.59 billion at end-April 2019, from a growth of 8.5 percent recorded in April 2018. Growth in long-term investments (securities) over the two-year period was partly due to the issuance of bonds by Government to finance the gap between the liabilities and selected assets of the two defunct banks taken over by the GCB Bank and the seven banks acquired by Consolidated Bank Ghana (CBG).

Credit growth continued to pick up, though moderately, with gross domestic advances recording 2.8 percent annual growth from GH¢36.75 billion to GH¢37.78 billion in April 2019, compared with 2.2 percent growth in April 2018.[1] Advances excluding provisions and interest in suspense (Net advances) rebounded, growing by 6.3 percent to GH¢32.77 billion in April 2019, after contracting by 0.5 percent a year earlier. Growth in the foreign currency component of net advances was higher at 33.8 percent, from GH¢8.6 billion in April 2018 to GH¢11.5 billion in April 2019, partly reflecting depreciation of the Ghana Cedi over the period.

As a result of these developments, Investments emerged as the largest component of the industry's assets with a share of 40.4 percent as at April 2019, up from the 35.9 percent a year ago. The share of gross advances in total assets declined from 37.6 percent to 34.4 percent. Non-earning assets, namely, other assets and fixed assets both contracted, pointing to greater efficiency in asset allocation. Fixed assets contracted by 3.9 percent in April 2019 from the 36.2 percent growth recorded in April 2018, partly due to rationalisation of bank branches by GCB and CBG, following the acquisition of the defunct banks. Other assets also contracted by 14.0 percent compared to a growth of 18.4 percent during the same comparative period. Accordingly, the combined share in total assets dipped from 8.9 percent to 7.3 percent over the period.

Deposits increased to GH¢73.1 billion in April 2019 from GH¢61.1 billion in April 2018, with both domestic and foreign currency deposits outperforming the previous year's performance. The stronger growth in deposits reflects increasing confidence in the banking sector following the recent clean-up exercise and recapitalization reforms. Domestic deposits, the largest component of total deposits, recorded a yearly growth of 19.7 percent to GH¢72.7 billion compared to 15.7

[1] The marginal growth is due to the exclusion of the stock of loans and advances of the nine (9) defunct banks under receivership. As stated above, the shortfall in the assets and liabilities which was due to the loans under receivership was accounted for by the issuance of the resolution bonds to GCB and CBG.

percent growth a year ago. Foreign currency deposits also grew strongly by 28.2 percent in April 2019 against 8.8 percent growth recorded in April 2018, partly reflecting the depreciation of the Ghana Cedi within the year. Deposits of non-residents however increased but at a slower pace, from 9.8 percent in April 2018 to 7.2 percent in April 2019. The sustained growth in total deposits resulted in its share of banking sector's pool of funds increasing from 62.5 percent to 66.5 percent during the period under review.

Bank borrowings however contracted by 11.0 percent from GH¢16.4 billion in April 2018 to GH¢14.6 billion in April 2019, as banks relied less on borrowings to fund their assets and more on relatively cheaper deposits. 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 31.7 percent to GH¢6.5 billion at end-April 2019 while long-term domestic borrowings contracted by 63.1 percent to GH¢497.8 million during the same period. On the other hand, short-term and long-term foreign borrowings increased by 42.9 percent and 28.7 percent respectively to GH¢4.9 billion and GH¢2.7 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 6.1 percent to 7.3 percent while domestic funding (domestic borrowing and domestic deposits, excluding capital) declined marginally from 79.5 percent to 78.6 percent over the same period.

The industry's capital base remains strong on account of the recently completed recapitalization exercise. Paid-up capital grew strongly by 70.5 percent, from GH¢5.2 billion to GH¢8.90 billion, while total shareholders' funds (paid-up capital and reserves) increased by 12.9 percent to GH¢15.5 billion in April 2019. The share of paid-up capital in the industry's funding sources increased from 5.3 percent to 8.1 percent while the share of shareholders' funds remained unchanged at 14.1 percent over the review period. Other Liabilities had a share of 6.1 percent of banks' funding in April 2019 compared with 6.7 percent a year ago. It also recorded a slower growth of 2.5 percent in April 2019 to GH¢6.7 billion, partly due to the consolidation within the industry after the reforms. Overall, the banking sector's balance sheet performance was strong in April 2019 on the back of increased growth in deposits and paid-up capital.

Table 1: Key Developments in DMBs' Balance Sheet										
	GH¢million				Y-on-Y Growth (%)			Shares (%)		
	Apr-17	Apr-18	Feb-19	Apr-19	Apr-18	Feb-19	Apr-19	Apr-18	Feb-19	Apr-19
TOTAL ASSETS	**84,485.6**	**97,782.2**	**108,903.6**	**109,912.2**	**15.7**	**14.5**	***12.4***	**100.0**	***100.0***	***100.0***
A. Foreign Assets	7,388.1	7,606.1	9,227.7	9,080.2	3.0	6.9	*19.4*	7.8	*8.5*	*8.3*
B. Domestic Assets	77,097.5	90,176.1	99,675.9	100,831.9	17.0	15.2	*11.8*	92.2	*91.5*	*91.7*
Investments	24,802.4	35,099.5	43,446.2	44,391.0	41.5	33.3	*26.5*	35.9	*39.9*	*40.4*
i. Bills	17,847.3	19,362.0	14,220.9	15,593.6	8.5	(18.6)	*(19.5)*	19.8	*13.1*	*14.2*
ii. Securities	6,530.2	15,307.8	28,820.6	28,378.9	134.4	96.2	*85.4*	15.7	*26.5*	*25.8*
Advances (Net)	30,987.5	30,837.6	31,815.9	32,769.4	(0.5)	4.8	*6.3*	31.5	*29.2*	*29.8*
of which Foreign Currency	8,429.3	8,593.6	11,367.5	11,498.3	1.9	32.6	*33.8*	8.8	*10.4*	*10.5*
Gross Advances	35,974.8	36,754.8	36,435.5	37,775.2	2.2	1.9	*2.8*	37.6	*33.5*	*34.4*
Other Assets	3,839.6	4,545.5	3,857.8	3,911.3	18.4	(5.0)	*(14.0)*	4.6	*3.5*	*3.6*
Fixed Assets	3,081.1	4,197.9	4,152.4	4,034.2	36.2	(2.2)	*(3.9)*	4.3	*3.8*	*3.7*
TOTAL LIABILITIES AND CAPITAL	**84,485.6**	**97,782.2**	**108,903.6**	**109,912.2**	**15.7**	**14.5**	***12.4***	**100.0**	***100.0***	***100.0***
Total Deposits	52,833.2	61,079.9	71,863.4	73,088.7	15.6	20.0	*19.7*	62.5	*66.0*	*66.5*
of which Foreign Currency	13,853.3	15,079.2	18,889.2	19,328.0	8.8	26.6	*28.2*	15.4	*17.3*	*17.6*
Total Borrowings	14,556.6	16,409.8	14,239.0	14,602.4	12.7	(6.3)	*(11.0)*	16.8	*13.1*	*13.3*
Foreign Liabilities	4,652.9	5,927.6	8,071.1	8,024.2	27.4	84.6	*35.4*	6.1	*7.4*	*7.3*
i. Short-term borrowings	2,262.7	3,396.0	4,525.4	4,852.6	50.1	146.0	*42.9*	3.5	*4.2*	*4.4*
ii. Long-term borrowings	2,019.5	2,124.6	3,076.3	2,735.4	5.2	41.1	*28.7*	2.2	*2.8*	*2.5*
iii. Deposits of non-residents	370.8	407.0	469.4	436.3	9.8	33.4	*7.2*	0.4	*0.4*	*0.4*
Domestic Liabilities	68,228.0	77,774.2	84,858.6	86,379.5	14.0	10.0	*11.1*	79.5	*77.9*	*78.6*
i. Short-term borrowing	8,935.8	9,539.3	5,908.5	6,516.6	6.8	(39.9)	*(31.7)*	9.8	*5.4*	*5.9*
ii. Long-term Borrowings	1,338.6	1,349.9	728.8	497.8	0.8	(45.9)	*(63.1)*	1.4	*0.7*	*0.5*
iii. Domestic Deposits	52,462.4	60,672.9	71,394.0	72,652.4	15.7	19.9	*19.7*	62.0	*65.6*	*66.1*
Other Liabilities	5,489.2	6,548.0	6,851.9	6,712.7	19.3	5.4	*2.5*	6.7	*6.3*	*6.1*
Paid-up capital	4,145.0	5,220.1	8,858.1	8,902.2	25.9	75.3	*70.5*	5.3	*8.1*	*8.1*
Shareholders' Funds	11,561.4	13,739.9	15,949.3	15,508.4	18.8	18.0	*12.9*	14.1	*14.6*	*14.1*

Source: Bank of Ghana

3.1.1 Asset and Liability Structure

Banks' asset structure of the balance sheet has not changed significantly from the observed pattern in 2018. Investments (bills and securities) remain the major asset component, its share increased to 40.4 percent in April 2019 from 35.9 percent a year earlier. This is followed by net advances with a share of 29.8 percent reflecting a marginal dip from the 31.5 percent share recorded in the same period last year. It is, however, expected that this reallocation will reverse when net advances pick up more strongly on the back of banks' enhanced solvency position and stronger deposit growth. The share of Cash and Due from Banks also declined from 23.5 percent in April 2018 to 22.5 percent in April 2019 while the shares of fixed assets and other assets moderated from their respective levels of 4.3 percent and 4.6 percent to 3.7 percent and 3.6 percent during the period under review [See Annexes Table 1].

The share of total deposits in banks' liabilities increased during the period under review, from 62.5 percent in April 2018 to 66.5 percent in April 2019 on account of the stronger growth in deposits recorded during the review period. However, the share of banks' total borrowings declined from 16.8 percent to 13.3 percent during the review period. Shareholders' funds constituted 14.1 percent of the industry's Liabilities and Capital in April 2019, same as in April 2018, while Other Liabilities accounted for 6.1 percent from 6.7 percent during the same review period [See Annexes Table 1].

3.1.2 Share of Banks' Investments

Banks reallocated their investments in favour of long-term securities which constituted an increased share of 63.9 percent in April 2019 from 43.6 percent in April 2018. The increase in the share of long-term securities in banks' investments was also contributed in part by the issuance of the Government of Ghana resolution bonds to offset the gap between liabilities and good assets of banks taken over by CBG, following their resolution. The share of short term bills in banks' investment portfolio accordingly declined from 55.2 percent to 35.1 percent. The proportion of the industry's investments in equities dipped marginally from 1.2 percent to 0.9 percent.

3.2 Credit Risk

The NPL ratio moderated in April 2019 compared with the same period last year on the back of the implementation of Bank of Ghana's loan write-off policy. As banks continue to align their credit risk frameworks with the new Capital Risk Directive issued in 2018, the credit risk exposure is expected to decline further.

3.2.1 Credit Portfolio Analysis

Gross loans and advances (excluding loans under receivership) was GH¢37.82 billion in April 2019, representing a nominal growth of 2.8 percent compared to 2.0 percent in April 2018.[2] In real terms, growth in gross loans and advances slowed from 6.8 percent in April 2018 to 6.1 percent in April 2019. In nominal terms, growth in the stock of credit to the private sector (comprising private enterprises and households) slowed by 3.5 percent to GH¢34.0 billion in April 2019 compared to 5.5 percent annual growth in April 2018.[3] In real terms, private sector credit contracted by 5.4 percent in April 2019 compared with a contraction of 3.7 percent a year ago. Credit to households amounted to GH¢8.4 billion in April 2019 compared with GH¢7.2 billion in the same period last year, indicating a yearly growth of 16.4 percent. Real growth in credit to households, accordingly slowed to 6.3 percent in April 2019, compared with 28.6 percent in April 2018 [See Annexes Table 2].

The share of private sector credit increased marginally to 89.9 percent in April 2019 from 89.3 percent in April 2018. Of the total, the share of private enterprises was 65.2 percent in April 2019 compared with 67.8 percent a year ago. The proportion of households in the industry's credit increased to 22.1 percent in April 2019 compared with 19.6 percent a year ago, while the share of credit to 'other' private entities increased to 2.5 percent from 1.9 percent during the same comparative period (See Annex Table 4).

The increased share of private sector credit in April 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 10.7 percent in April 2018 to 10.1 percent in April 2019, largely from the decline in the share of industry's credit to public enterprises. The portion of the banking industry's credit to Public Enterprises declined from 7.2 percent to 4.6 percent, while the share to Public Institutions increased from 1.1 percent to 1.4 percent during the review period. Credit to Government also recorded an increased share during the period under review from 2.5 percent to 4.0 percent [See Annexes Table 4].

In terms of credit allocation to economic sectors in April 2019, the Services sector and the Commerce and Finance sector were the highest recipients, with each accounting for 22.5 percent of total credit as at end-April 2019. This was followed by the manufacturing sector with a share of 11.8 percent. The lowest share of the industry's credit of 3.4 percent went to

[2] Accounting for all loans and advances under receivership, growth in Gross loans and advances was 22.0 percent.
[3] Private sector credit grew in nominal terms by 19.8 percent if the private sector loans and advances under receivership are included.

the mining and quarrying sector while Agriculture, forestry and fishing sector received 4.3 percent of the industry's total credit. The three highest sectoral recipients (commerce and finance, services and manufacturing) accounted for 56.8 percent of the industry's outstanding credit balances, while the lowest three recipients (mining and quarrying, agriculture, forestry and fishing, and construction) accounted for 15.8 percent of the industry's credit [See Figure 1].

3.2.2 Off-Balance Sheet Activities

The off-balance sheet activities of banks, largely comprising trade finance and guarantees, slowed in April 2019 compared with the same period a year ago. The industry's contingent liabilities amounted to GH¢9.03 billion as at April 2019 compared to GH¢8.94 billion in April 2018, translating into a lower year-on-year growth rate of 1.0 percent, from the 30.1 percent growth recorded during the same comparative period last year. The ratio of banks' contingent liabilities to total liabilities also declined to 9.6 percent in April 2019 from 10.6 percent a year earlier [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 from GH¢8.63 billion in April 2018 to GH¢7.16 billion in April 2019, representing a contraction of 17.0 percent compared with the 20.8 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 18.9 percent in April 2019 from 23.5 percent a year ago. When adjusted for the fully-provisioned loan loss category, the NPL ratio declines to 9.0 percent from 12.2 percent, signalling a slowdown in deterioration of loan quality.

The private sector accounted for 97.3 percent of the industry's NPLs in April 2019, up from the 90.7 percent recorded in April 2018, while the public sector's contribution declined to 2.7 percent from 9.3 percent over the same comparative period. Indigenous private enterprises accounted for a lower 75.1 percent of total NPLs in April 2019 compared with 76.9 percent in the corresponding period in 2018, while the contribution of foreign enterprises increased to 8.9 percent from 7.6 percent. The contribution of households to the banking industry NPLs rose with the increase in their share of the industry credit, accounting for 12.1 percent of total NPLs in April 2019, compared with a share of 5.6 percent a year ago [See Annexes Table 4].

The banking industry NPLs across the various economic sectors in April 2019 continue to reflect the industry's sectoral credit allocation, with commerce and finance, one of the two largest recipients, accounting for 23.7 percent. The other largest recipient, the Services sector, accounted for a lower share of industry NPLs of 17.2 percent, translating into a lower proportion of 14.5 percent of loans impaired for the sector. The lowest recipient of banking industry credit, mining and quarrying, also had the least share of the industry's NPLs of 1.8 percent in April 2019. Overall, the top three largest contributors to the industry's NPLs (commerce & finance; services; and manufacturing) accounted for 57.0 percent in April 2019; while the three lowest contributors (agriculture, forestry & fishing; mining & quarrying; and transport, storage & communication) accounted for 14.2 percent during the review period [See Figure 1].

An analysis of the proportions of loans impaired in each sector showed that with the exception of the agriculture, forestry & fishing sector, all other sectors recorded improvements in April 2019 compared with April 2018.The share of loans to the agriculture, forestry & fishing sector that were classified as impaired increased to 36.4 percent in April 2019 from 34.4 percent a year ago. Although the commerce & finance sector accounted for the largest share of industry NPLs, the proportion of its loans classified as impaired declined from 27.4 percent to 20.0 percent within the review period while that of the mining and quarrying sector improved significantly from 23.3 percent to 9.9 percent. The transport, storage &

communication sector recorded the lowest NPL ratio of 9.8 percent as at end-April 2019 from 22.0 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 broadly improved by end-April 2019 compared with the position a year ago.

3.3.1 Liquidity Indicators

The banking sector remained liquid during the review period although some marginal declines were recorded in some liquidity indicators. The ratio of core liquid assets (mainly cash and due from banks) to total deposits declined to 33.8 percent in April 2019 from 37.7 percent in April 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 core liquid assets to total assets declined marginally to 22.5 percent from 23.5 percent over the same period. The ratio of broad liquid assets to total deposits marginally declined from 94.5 percent in April 2018 to 94.0 percent in April 2019, mainly due to growth in total deposits. The ratio of broad liquid assets to total assets on the other hand, rose from 59.0 percent to 62.5 percent over the same period [See Annexes Table 5].

3.3.2 Capital Adequacy Ratio (CAR)

The banking industry's ability to absorb losses using its capital was enhanced in April 2019. The industry's solvency, measured by the Capital Adequacy Ratio (CAR) increased to 21.4 percent in April 2019 from 18.9 percent in April 2018 reflecting the impact of the recapitalization exercise. Even under the enhanced 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 17.4 percent, compared with the 13.0 percent prudential requirement (inclusive of a 3% buffer for CRD). The quality of banks' capital also improved with the recapitalization, indicated by the sharp increase in the Tier 1 CAR to 19.6 percent from 16.3 percent during the period under review. Banks' risk weighted assets (RWA) to total assets declined from 63.4 percent in April 2018 to 56.0 percent in April 2019 reflecting the increasing share of investments (which carries a lower risk rating) in banks' asset mix [See Figure 2].

3.3.3 Profitability

The profitability of the banking industry improved during the first four months of 2019 compared with the same period last year. The industry recorded an after-tax profit of GH¢1.1 billion, representing a year-on-year growth of 38.9 percent compared with 5.8 percent growth for the same period last year. The higher growth in net profit was underpinned by higher growth of net interest income during the review period. Net interest income grew by 21.6 percent on account of higher interest income from investments and lower interest expenses from reduced borrowings on the back of increased deposits mobilized. Annual growth in Net fees and commissions moderated to 4.3 percent compared with 20.0 percent growth in the same period last year, attributable to the slowdown in the volume of off-balance sheet activities. Operational expenses grew by 9.5 percent, higher than the previous year's growth of 3.6 percent. Total provisions (on loans and fixed assets depreciation) grew by 18.4 percent, compared with the growth of 19.4 percent recorded for the same period a year earlier on account of reduction in fixed assets and lower NPLs. 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 levels during the period under review positively reflected in the main indicators, namely, after-tax Return on Equity (ROE) and before-tax Return on Assets (ROA). The industry's after-tax ROE computed as a ratio of after-tax income to average shareholders' funds increased to 18.9 percent in April 2019 from 17.3 percent in April 2018. Similarly, the before-tax ROA measured as the ratio of income before-tax to average total assets increased to 4.1 percent from 3.6 percent during the same comparative period, pointing to improved profitability within the banking industry [See Figure 2 and Annexes Table 6].

(b) Interest Margin and Spread

Banks' interest spreads remained unchanged at 3.7 percent during the period under review mainly from declines in gross yields (from 6.3% to 5.6%) which offset the decline in interest payable on deposits and borrowings (from 2.6% to 1.9%). The ratio of gross income to total assets (asset utilisation) declined marginally to 5.1 percent in April 2019 from 5.2 percent in April 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 2.4 percent to 2.6 percent during the review period, whereas interest margin to gross income increased to 52.1 percent from 47.3 percent. The industry's profitability ratio also increased to 19.5 percent in April 2019 from 15.5 percent a year earlier [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 investments income in banks' income rose with its share in total assets. Investments (both short and long-term) constituted the largest source of income for banks, with its share increasing to 44.5 percent in April 2019 from 42.6 percent in April 2018. The share of income from loans declined to 34.7 percent from 38.0 percent during the period under review, following the decline in the size of loans in the industry's assets. The share of banks' income from commissions and fees also declined to 12.0 percent in April 2019 from 12.6 percent a year earlier, while other income sources from non-core banking activities inched up to 8.8 percent of their total income from 6.9 percent over 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 53.3 percent in April 2019 from 51.3 percent a year earlier, all the operational efficiency indicators improved. Operational cost to total assets remained unchanged at 2.7 percent during the same comparative period while the industry's cost to income ratio declined to 80.4 percent in April 2019 from 84.5 percent in April 2018. Cost to total assets also declined from 4.4 percent to 2.7 percent during the same comparative period [See Figure 2]. The improvement in these cost efficiency ratios partly accounted for the improved industry profitability during the review period.

Figure 2: Key Financial Soundness Indicators (FSIs)

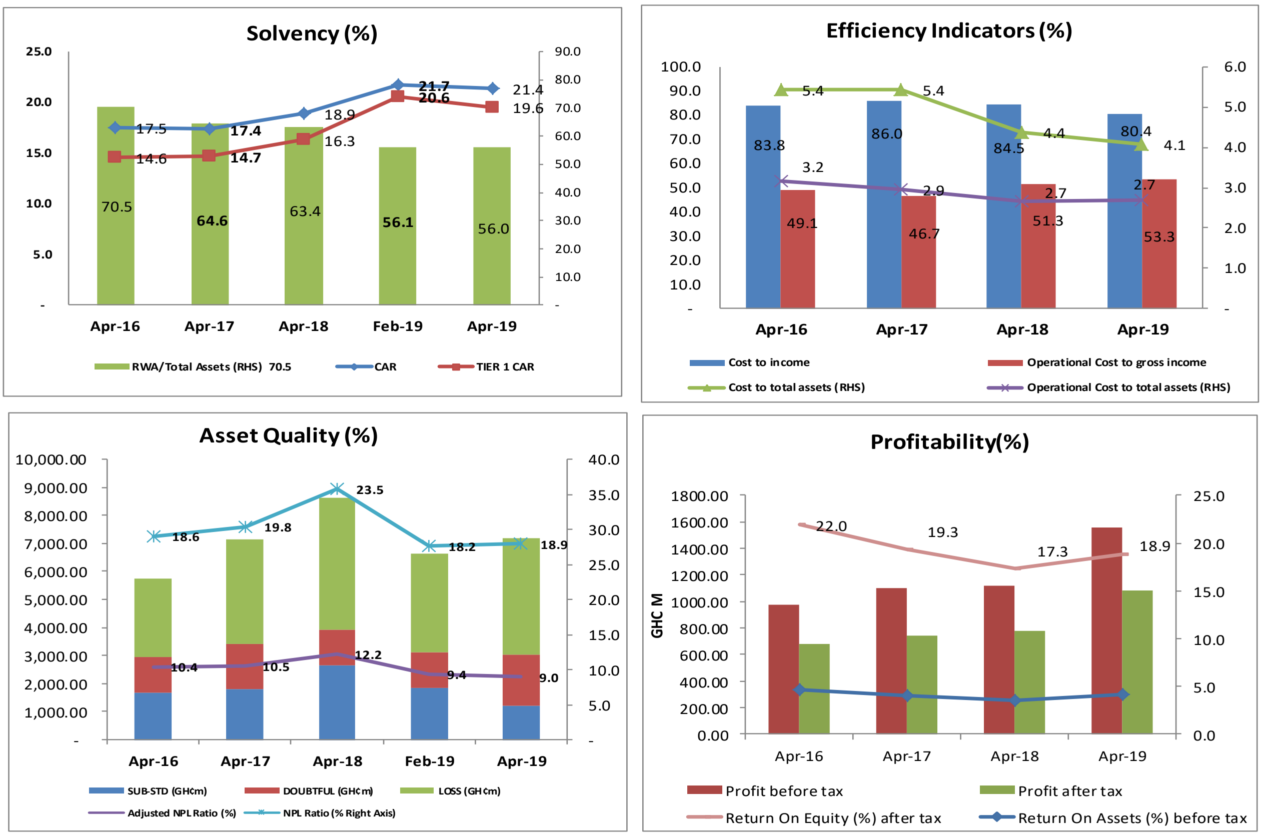
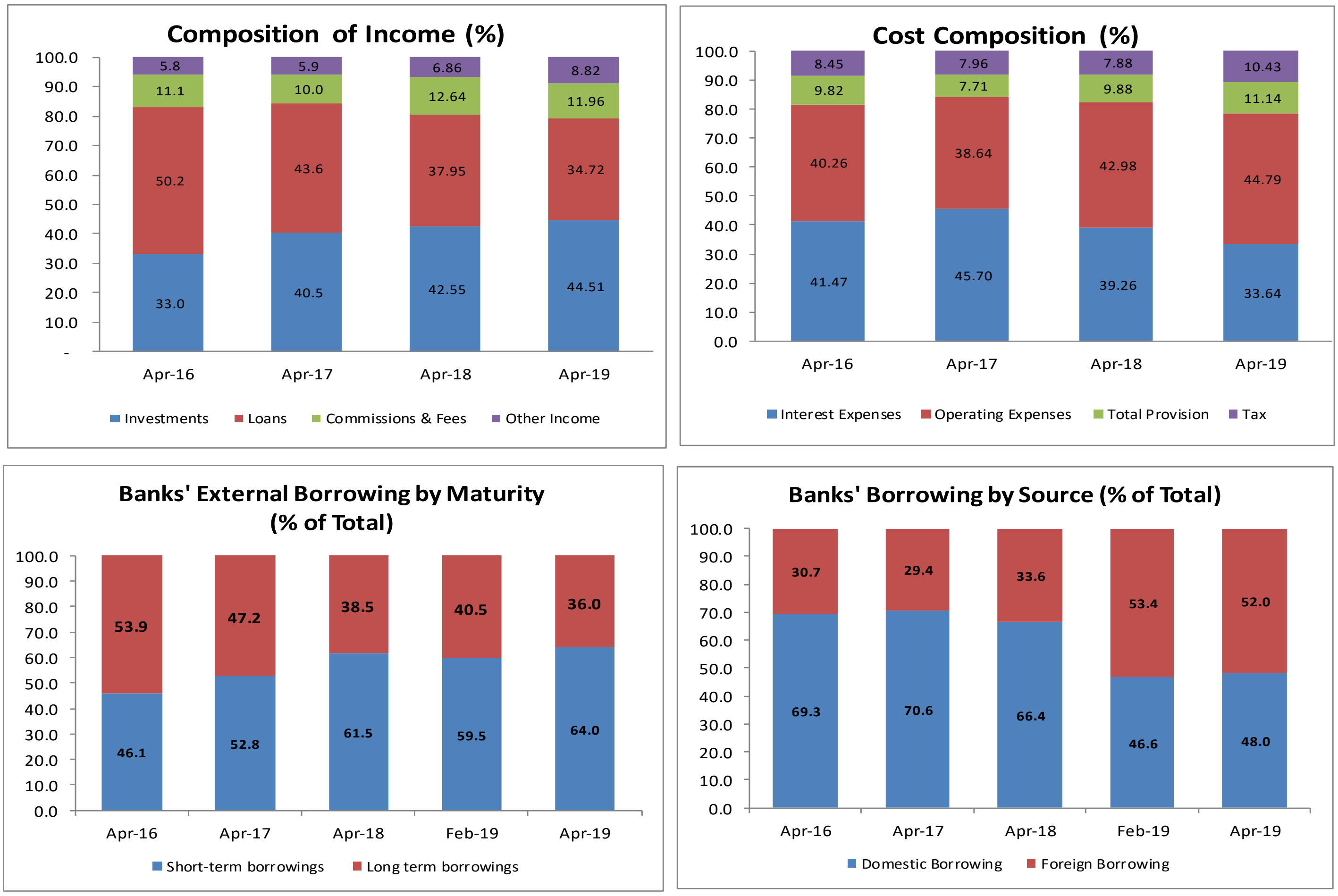


Figure 3: Composition of Income, Cost and Borrowings



3.4 Banks' Counterparty Relationships

Banks' offshore accounts posted a mixed performance in April 2019 compared with April 2018.

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

Banks' offshore balances increased to GH¢8.4 billion (20.2% y/y growth) in April 2019 from GH¢7.0 billion (1.5% y/y growth) in April 2018. The strong pickup in the growth of banks' offshore balances came largely from the sharp increase in the growth of placements abroad by 55.2 percent in April 2019 compared with the contraction of 19.0 percent a year ago. However, banks' nostro balances comprising balances with foreign banks contracted by 5.8 percent from the 25.1 percent growth during the same comparative period. The ratio of banks' offshore balances to their net worth increased accordingly, from 50.7 percent in April 2018 to 53.9 percent in April 2019, pointing to a marginal elevation in the industry's exposure to cross-border risks [See Annexes Table 8].

The banking industry also borrowed more from foreign counterparties than from domestic counterparties in April 2019 relative to April 2018. The share of banks' borrowing from foreign counterparties in total borrowed funds went up to 52.0 percent in April 2019 from 33.6 percent in April 2018 while the share of domestically borrowed funds dropped to 48.0 percent from 66.4 percent during the same review period. The proportion of banks' short-term borrowing in total external borrowing increased to 64.0 percent in April 2019 from 61.5 percent in April 2018, while the share of long-term external borrowing declined to 36.0 percent from 38.5 percent over the same comparative period [See Figure 3].

4. CREDIT CONDITIONS SURVEY

The April 2019 Credit Conditions Survey pointed to a net ease in the overall credit stance to enterprises following net eases in banks' credit stance on all categories of enterprise loans [See Figure 4]. This was corroborated by the gradual pick up in actual credit growth recorded in April 2019. The softened credit stance on loans during the first four months of 2019 was in line with expectations of recovery in credit growth following the post-recapitalisation period. Banks however reported that they expect the stance on overall enterprise credit to tighten marginally over the next two months, driven by a net tightening of the credit stance to SMEs and large enterprises.

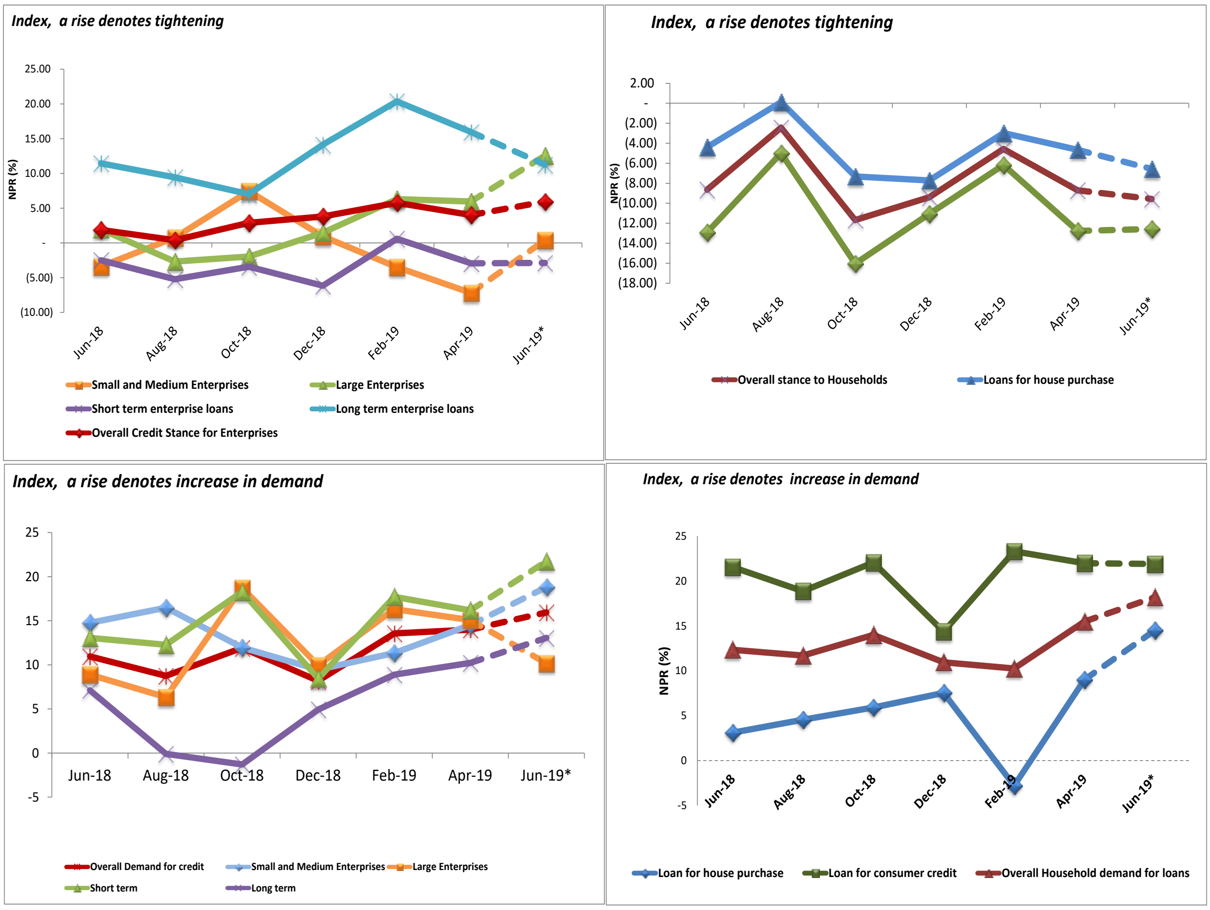
The survey findings also pointed to net ease in banks' overall credit stance to households which reflected in both loans for house purchases and loans for consumer credit and other lending. This was consistent with the sharp increase in credit to households observed during the review period, reflecting banks' improved capital positions. Banks project further ease in the credit stance on overall loans to households over the next two months, driven by a net ease in the credit stance on mortgages.

In respect of demand for credit, the survey results showed an increase in the overall demand for enterprise credit, driven by increased demand for long term and SME loans. Demand for short term loans and corporate loans however declined between February 2019 and April 2019. Banks project an increase in overall demand for credit by enterprises over the next two months, which will be reflected in demand for the different categories of loans except corporate loans.

The survey findings also revealed a net increase in the overall household demand for credit driven by a sharp increase in the demand for mortgage loans. Demand for loans for consumer credit and other lending however declined marginally. Over the next two months, banks project a net increase in the overall demand for credit by households from a net increase in the demand for mortgage loans while the net demand for consumer credit and other lending is projected to remain broadly unchanged.

The banking sector's one-year inflation expectations index declined during the April 2019 survey round, indicating that banks expect inflation to decline one year from now. Banks attributed the lower inflation expectation to the sustained single digit inflation over the past 10 months, as well as expectations of improved performance of the economy. Banks' lending rates expectations also declined during the April 2019 survey round. Banks' lending rates expectations are projected to decline further with the resolution of the industry's high NPLs and sustained macroeconomic stability.

Figure 4: Credit Conditions Survey Results



5. CONCLUSION AND OUTLOOK

The banking sector's performance has been enhanced following the recent reforms and recapitalisation of the sector. Key financial soundness indicators showed broad improvements in April 2019 compared with the same period in 2018. The sector had a strong balance sheet in April 2019, with growth underpinned by robust annual growth in deposits and paid-up capital, while profitability growth was also strong. Asset quality, however, remained a concern even though credit risk moderated over the period under review. The adoption of the Basel II/III framework is timely as it is expected that banks' adherence to good credit risk management practices will contribute to reducing non-performing loans and promote credit expansion, growth and profitability within the industry.

ANNEXES

Table 1: Asset and Liability Structure of the Banking Sector

	Apr-19	Apr-17	Apr-18	Feb-19	Apr-19
Components of Assets (% of Total)					
Cash and Due from Banks	25.1	25.6	23.5	23.5	22.5
Investments	24.5	29.4	35.9	39.9	40.4
Net Advances	42.0	36.7	31.5	29.2	29.8
Other Assets	4.6	4.5	4.6	3.5	3.6
Fixed Assets	3.6	3.6	4.3	3.8	3.7
Components of Liabilities & Shareholders Funds(% of Total)					
Total Deposits	63.8	62.5	62.47	66.0	66.5
Total Borrowings	15.4	17.2	16.78	13.1	13.3
Other Liabilities	6.0	6.5	6.70	6.3	6.1
Shareholders' Funds	14.8	13.7	14.05	14.6	14.1

Table 2: Gross Loans and Credit Growth

	Apr-16	Apr-17	Apr-18	Feb-19*	Apr-19*
Gross Loans and Advances (GH¢m)	30,916.75	36,059.62	36,797.13	36,483.06	37,824.08
Nominal Growth (y-o-y)	12.2	16.6	2.0	1.7	2.8
Real Growth (y-o-y)	(5.5)	3.1	(6.8)	(6.8)	(6.1)
Private Sector Credit (GH¢m)	26,772.80	31,121.50	32,842.77	33,098.66	34,007.59
Nominal Growth (y-o-y)	11.3	16.2	5.5	4.1	3.5
Real Growth (y-o-y)	(6.3)	2.8	(3.7)	(4.6)	(5.4)
Household Loans (GH¢m)	4,769.79	5,108.94	7,196.37	7,505.25	8,373.41
Nominal Growth (y-o-y)	12.8	7.1	40.9	11.9	16.4
Real Growth (y-o-y)	(4.9)	(5.3)	28.6	2.5	6.3

* Excludes Loans under Receivership

Table 3: Contingent Liability

	Apr-16	Apr-17	Apr-18	Feb-19	Apr-19
Contingent Liabilities (GH¢)	6,799.1	6,870.1	8,941.2	9,733.0	9,032.3
Growth (y-o-y)	-	5.4	1.0	30.1	8.1	1.0
% of Total Liabilities	12.4	9.4	10.6	10.5	9.6

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

	Apr-17		Apr-18		Feb-19		Apr-19	
	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Tota Credit	Share in NPLs	Share in Total Credit	Share in NPLs
a. Public Sector	**13.7**	**2.5**	**10.7**	**9.3**	**9.3**	**3.1**	**10.1**	**2.7**
i. Government	1.4	1.0	2.5	1.0	3.6	1.0	4.0	0.8
ii. Public Institutions	5.0	0.1	1.1	0.4	1.2	0.3	1.4	0.3
iii. Public Enterprises	7.4	1.4	7.2	7.9	4.5	1.7	4.6	1.6
b. Private Sector	**86.3**	**97.5**	**89.3**	**90.7**	**90.7**	**96.9**	**89.9**	**97.3**
i. Private Enterprises	70.8	91.4	67.8	84.5	67.7	85.6	65.2	84.0
o/w Foreign	8.5	12.5	7.3	7.6	10.9	10.2	9.9	8.9
Indigeneous	62.3	78.9	60.5	76.9	56.7	75.4	55.3	75.1
ii. Households	14.2	5.6	19.6	5.6	20.6	9.6	22.1	12.1
iii. Others	1.3	0.5	1.9	0.6	2.5	1.8	2.5	1.2

Table 5: Liquidity Ratios

	Apr-16	Apr-17	Apr-18	Feb-19	Apr-19
Liquid Assets (Core) - (GH¢'million)	16,181.6	21,654.4	23,023.7	25,551.82	24,725.5
Liquid Assets (Broad) -(GH¢'million)	31,532.7	46,032.0	57,693.6	68,593.36	68,698.1
Liquid Assets to total deposits (Core)-%	39.3	41.0	37.7	35.56	33.8
Liquid Assets to total deposits (Broad)- %	76.7	87.1	94.5	95.45	94.0
Liquid assets to total assets (Core)- %	25.1	25.6	23.5	23.46	22.5
Liquid assets to total assets (Broad)- %	48.9	54.5	59.0	62.99	62.5

Table 6: Profitability Indicators (%)

	Apr-16	Apr-17	Apr-18	Apr-19
Gross Yield	8.8	7.7	6.3	5.6
Int Payable	3.7	3.6	2.6	1.9
Spread	5.1	4.1	3.7	3.7
Asset Utilitisation	6.5	6.3	5.2	5.1
Interest Margin to Total Assets	3.1	2.8	2.4	2.6
Interest Margin to Gross income	48.4	44.8	47.3	52.1
Profitability Ratio	16.2	13.9	15.5	19.5
Return On Equity (%) after tax	22.0	19.3	17.3	18.9
Return On Assets (%) before tax	4.7	4.0	3.6	4.1

Table 7: DMBs' Income Statement Highlights

	Apr-16	Apr-17	Apr-18	Apr-19	Apr-18	Apr-19
	(GH ¢'million)				Y-on-y Growth (%)	
Interest Income	3,468.1	4,479.8	4,068.8	4,417.3	(9.2)	8.6
Interest Expenses	(1,449.5)	(2,096.1)	(1,677.2)	(1,510.0)	(20.0)	(10.0)
Net Interest Income	**2,018.6**	**2,383.7**	**2,391.6**	**2,907.2**	**0.3**	**21.6**
Fees and Commissions (Net)	462.7	532.3	638.9	666.6	20.0	4.3
Other Income	240.0	314.3	346.5	491.7	10.2	41.9
Operating Income	**2,721.3**	**3,230.3**	**3,376.9**	**4,065.4**	4.5	20.4
Operating Expenses	**(1,407.3)**	**(1,772.6)**	**(1,836.1)**	**(2,010.6)**	3.6	9.5
Staff Cost (deduct)	(754.3)	(890.7)	(973.7)	(1,103.0)	9.3	13.3
Other operating Expenses	(653.0)	(881.9)	(862.5)	(907.6)	(2.2)	5.2
Net Operating Income	**1,314.0**	**1,457.7**	**1,540.8**	**2,054.8**	**5.7**	**33.4**
Total Provision (Loan losses, Depreciation & others)	(343.1)	(353.5)	(422.1)	(499.9)	19.4	18.4
Income Before Tax	**970.9**	**1,104.2**	**1,118.6**	**1,555.0**	1.3	39.0
Tax	(295.4)	(365.0)	(336.4)	(468.3)	(7.8)	39.2
Net Income	**675.5**	**739.3**	**782.2**	**1,086.7**	**5.8**	**38.9**
Gross Income	**4,170.8**	**5,326.4**	**5,054.1**	**5,575.5**	(5.1)	10.3

Table 8: Developments in Offshore Balances

	Apr-16	Apr-17	Apr-18	Feb-19	Apr-19
Offshore balances as % to Networth	46.01	59.29	50.66	53.51	53.94
Annual Growth in Offshore balances (%)	-8.40	56.21	1.53	7.57	20.19
Annual Growth in Nostro Balances (%)	(14.39)	15.57	25.12	(31.18)	(5.81)
Annual Growth in Placement (%)	3.97	125.25	(19.04)	67.90	55.23