BANK OF GHANA
Banking Sector Report

September 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 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 918, *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 provides an assessment of the performance of Ghana's banking sector based on the aggregated financial statements of the sector, which consists of 23 banks as at end-August 2019.

The review shows that significant gains have been made since the onset of the banking sector reforms two years ago. In particular, a well-capitalised, solvent, liquid and profitable banking sector has emerged with improved financial soundness indicators. Asset growth is robust, underpinned by sustained growth in deposits and higher capital levels while credit has continued to recover compared to the same period last year. Bank profitability has also improved on the back of increased business and cost savings.

Further, key Financial Soundness Indicators (FSIs) of the industry have significantly improved underscoring a more stable and resilient banking sector. The Capital Adequacy Ratio (CAR) is well above the regulatory minimum of 13 percent under the more stringent Capital Requirement Directive (CRD) under the Basel II/III framework. Liquidity and efficiency indicators broadly remain adequate. Asset quality was improved with declines in both the outstanding stock of Non-Performing Loans (NPLs) as well as the NPL ratio during the period under review. The observed decline in NPLs is attributed to the continuous enforcement of the loan write-off policy and recoveries by some banks.

Looking ahead, the banking sector is expected to deliver much stronger performance with continued improvement in the key FSIs. The gradual recovery in credit growth is expected to be sustained on the back of strong deposit growth and sufficient capital levels. In addition, further improvement in asset quality is projected, with banks' strengthening credit risk management processes and intensifying loan recovery efforts.

3. BANKING SECTOR DEVELOPMENTS

3.1 Banks' Balance Sheet

Total assets of the banking sector amounted to GH¢115.18 billion as at end-August 2019, recording an annual growth of 10.1 percent. Domestic assets, which constitute a larger proportion of total assets, increased by 12.9 percent to GH¢105.76 billion, while foreign assets contracted by 14.0 percent on account of reductions in both banks' nostro balances and placements abroad [See Table 1]. Following these developments, the share of domestic assets inched up to 91.8 percent in August 2019 from 91.2 percent in June, while the share of foreign assets declined to 8.2 percent from 8.8 percent over the same period.

Banks' total investments, consisting of bills, securities and equity grew by 13.2 percent to GH¢45.92 billion at end-August 2019. This represents a more normalized growth compared with the 65.0 percent recorded for same period in 2018, which largely reflected the special resolution bonds issued to Consolidated Bank Ghana (CBG) to cover the excess of liabilities on selected assets of the five resolved banks in August 2018. Accordingly, growth of banks' long term investments (securities) of GH¢30.43 slowed to 25.6 percent in August 2019 compared with 216.4 percent in the previous year [See Table 1]. Notwithstanding the impact of the (long-term) resolution bonds on total investments, banks showed some preference for longer dated instruments as investments in short-term instruments declined by 5.2 percent year-on-year to GH¢15.06 billion as at end-August 2019, following a contraction by 3.7 percent a year earlier.

Credit growth continued to rebound strongly in August 2019 with a 15.0 percent growth in gross loans and advances to GH¢38.85 billion,[1] a reversal of the 9.4 percent contraction a year earlier. Similarly, net advances (gross loans adjusted for provisions and interest in suspense) grew by 18.2 percent to GH¢34.09 billion after declining by 7.5 percent in August 2018. Growth in the foreign currency component of net advances was however, higher at 28.8 percent, from GH¢9.27 billion in August 2018 to GH¢11.94 billion, partly reflecting the depreciation of the Ghana Cedi over the period.

Non-earning assets, comprising both fixed assets and other assets, contracted by 1.7 percent in August 2019 to GH¢8.24 billion, pointing to greater efficiency in asset allocation. Specifically, growth in fixed assets moderated to 3.4 percent in August 2019 from 18.6 percent in August 2018 partly due to rationalisation of branch networks following the consolidation of banks after the reforms, while banks' other assets contracted by 6.3 percent year-on-year in August 2019.

Deposits remain the main source of funding for the banking sector. Growth in deposits however moderated by 12.2 percent to GH¢76.02 billion in August 2019 compared to the 26.2 percent rate observed a year earlier. The growth slowdown reflected some payment of depositors' funds by CBG as part of the reforms. The domestic currency component of deposits accordingly recorded a slower growth of 9.1 percent to GH¢54.81 billion in August 2019, 20 percentage points lower than the previous year's growth. Foreign currency deposits on the other hand grew by 21.2 percent to GH¢21.21 billion during the review period compared to a growth of 18.6 percent in the previous year [See Table 1].

Banks' borrowings contracted by 5.0 percent to GH¢15.93 billion in August 2019 from GH¢16.77 billion in August 2018. Accordingly, the share of borrowings in banks' pool of funds declined to 13.8 percent from 16.0 percent in the previous year. The contraction in total borrowings, driven mainly by sharp declines in both short-term and long-term domestic borrowings, reflected reduced reliance on borrowings by banks due to higher capital levels and healthy growth in deposits post-recapitalisation.

[1] Excluding loans under receivership

The industry's capital base remains strong following the completion of the recapitalization exercise in December 2018. Paid-up capital grew by 39.5 percent to GH¢9.26 billion in August 2019, building up on the 52.4 percent growth in August 2018 as a result of the recapitalisation. Consequently, and in addition to increased profit retention, shareholders' funds (comprising paid-up capital and reserves) grew by 22.8 percent in August 2019 to GH¢16.72 billion. The robust growth, similar to the 21.3 percent in August 2018 also underscores increased profitability within the banking sector. The sustained growth in shareholders' funds indicates that banks are in a better position not only to deepen intermediation but also resilient to shocks. 'Other Liabilities' was virtually unchanged, with a marginal 0.4 percent growth to GH¢6.51 billion in August 2019. Overall, the assessment of the industry's balance sheet position as at August 2019 shows that the banking sector's growth has been robust and is projected to improve further [See Table 1].

Table 1: Key Developments in DMBs' Balance Sheet

	GH¢ million				Y-on-Y Growth (%)			Shares (%)		
	Aug-17	Aug-18	Jun-19	Aug-19	Aug-18	Jun-19	Aug-19	Aug-18	Jun-19	Aug-19
TOTAL ASSETS	**86,087.7**	**104,623.2**	**112,817.2**	**115,181.7**	**21.5**	***12.4***	***10.1***	***100.0***	***100.0***	***100.0***
A. Foreign Assets	7,650.6	10,955.7	9,914.4	9,418.1	43.2	*40.4*	*-14.0*	*10.5*	*8.8*	*8.2*
B. Domestic Assets	78,437.1	93,667.4	102,902.9	105,763.6	19.4	*10.3*	*12.9*	*89.5*	*91.2*	*91.8*
Investments	24,575.1	40,556.1	43,523.0	45,922.0	65.0	*21.5*	*13.2*	*38.8*	*38.6*	*39.9*
i. Bills	16,506.3	15,887.8	15,885.4	15,063.9	(3.7)	*(18.0)*	*-5.2*	*15.2*	*14.1*	*13.1*
ii. Securities	7,659.8	24,238.0	27,213.7	30,432.2	216.4	*69.8*	*25.6*	*23.2*	*24.1*	*26.4*
Advances (Net)	31,195.7	28,840.9	33,942.1	34,086.3	(7.5)	*4.0*	*18.2*	*27.6*	*30.1*	*29.6*
of which Foreign Currency	8,697.5	9,274.3	11,812.9	11,943.5	6.6	*25.5*	*28.8*	*8.9*	*10.5*	*10.4*
Gross Advances	37,291.7	33,777.9	38,666.9	38,852.0	(9.4)	*(0.0)*	*15.0*	*32.3*	*34.3*	*33.7*
Other Assets	4,612.1	4,439.5	4,214.3	4,162.0	(3.7)	*7.7*	*-6.3*	*4.2*	*3.7*	*3.6*
Fixed Assets	3,322.1	3,941.0	4,072.5	4,074.8	18.6	*(6.7)*	*3.4*	*3.8*	*3.6*	*3.5*
TOTAL LIABILITIES AND CAPITAL	**86,087.7**	**104,623.2**	**112,817.2**	**115,181.7**	**21.5**	***12.4***	***10.1***	***100.0***	***100.0***	***100.0***
Total Deposits	53,691.1	67,741.5	75,571.7	76,023.0	26.2	*22.3*	*12.2*	*64.7*	*67.0*	*66.0*
of which Foreign Currency	14,761.1	17,501.4	21,625.6	21,210.4	18.6	*37.9*	*21.2*	*16.7*	*19.2*	*18.4*
Total Borrowings	15,276.5	16,774.0	14,729.9	15,931.6	9.8	*(17.9)*	*-5.0*	*16.0*	*13.1*	*13.8*
Foreign Liabilities	4,883.0	8,241.0	8,240.1	9,086.6	68.8	*25.2*	*10.3*	*7.9*	*7.3*	*7.9*
i. Short-term borrowings	2,471.7	4,894.4	5,045.5	6,088.2	98.0	*33.8*	*24.4*	*4.7*	*4.5*	*5.3*
ii. Long-term borrowings	2,001.0	2,833.2	2,824.6	2,667.9	41.6	*17.8*	*-5.8*	*2.7*	*2.5*	*2.3*
iii. Deposits of non-residents	410.3	513.3	370.0	330.6	25.1	*(10.5)*	*-35.6*	*0.5*	*0.3*	*0.3*
Domestic Liabilities	69,951.6	82,652.1	88,616.4	89,376.8	18.2	*11.6*	*8.1*	*79.0*	*78.5*	*77.6*
i. Short-term borrowing	9,515.6	7,647.4	6,444.3	5,890.9	(19.6)	*(38.4)*	*-23.0*	*7.3*	*5.7*	*5.1*
ii. Long-term Borrowings	1,288.2	1,398.9	415.5	1,284.6	8.6	*(68.4)*	*-8.2*	*1.3*	*0.4*	*1.1*
iii. Domestic Deposits	53,280.9	67,228.1	75,201.8	75,692.4	26.2	*22.5*	*12.6*	*64.3*	*66.7*	*65.7*
Other Liabilities	5,888.9	6,484.5	6,555.0	6,508.9	10.1	*(1.2)*	*0.4*	*6.2*	*5.8*	*5.7*
Paid-up capital	4,354.0	6,636.0	9,004.3	9,257.5	52.4	*58.4*	*39.5*	*6.3*	*8.0*	*8.0*
Shareholders' Funds	11,226.6	13,618.2	15,960.6	16,718.2	21.3	*14.2*	*22.8*	*13.0*	*14.1*	*14.5*

Source: Bank of Ghana

3.1.1 Asset and Liability Structure

The asset structure of the banking industry's balance sheet as at end-August 2019 largely mirrored the observed pattern in the prior year, except for some marginal changes in the asset mix. Investments (bills and securities) remained the major component of banks' total assets with its share increasing from 38.8 percent in August 2018 to 39.9 percent in August 2019. Net advances also remained the second largest component of assets within the banking sector. However, with the gradual growth recovery in net advances during the review period, the share of net advances in total assets increased from 27.6 percent to 29.6 percent. Cash and Due from banks was the third largest component of assets although its share declined marginally to 23.3 percent from 25.6 percent over the period [See Annexes Table 1]. Following the contraction in non-earning assets, the respective shares of other assets and fixed assets in total assets declined from 4.2 percent and 3.8 percent to 3.6 percent and 3.5 percent. [Annex Table 1].

A slight change in the funding structure of banks from the previous years' pattern was observed as shareholders' funds replaced borrowings as the second largest component. Deposits remained the largest component of banks' pool of funds in August 2019, with its share of 66.0 percent, marginally higher than the 64.7 percent share a year ago. Shareholders' funds constituted 14.5 percent of the industry's liabilities and capital in August 2019, higher than the 13.0 percent share recorded in August 2018. There was a notable dip in the share of borrowings in banks' total funding from 16.0 percent to 13.8 percent following the contraction in borrowings within the year. As a result of these developments, the share of 'other' liabilities marginally dipped to 5.7 percent from 6.2 percent [See Annexes Table 1].

3.1.2 Share of Banks' Investments

Banks' investment portfolio as at August 2019 was largely skewed towards long-term debt instruments. This reflected banks' preference for high-yielding longer-dated securities as well as the specialised resolution bonds. The share of securities increased further from 59.8 percent to 66.3 percent. The proportion of short-term bills in total investments accordingly declined from 39.2 percent in August 2018 to 32.8 percent in August 2019. Investments in equities moderated marginally from 1.1 percent to 0.9 percent [See Figure 1].

3.2 Credit Risk

Asset quality improved within the banking industry as the stock of non-performing loans as well as the NPL ratio declined in August 2019 compared to the same period last year. The improvement in asset quality is expected to be sustained by continued implementation of Bank of Ghana's loan write-off policy, intensified loan recovery efforts, as well as stronger credit risk management practices by banks.

3.2.1 Credit Portfolio Analysis

Growth in gross loans and advances (excluding loans under receivership) rebounded during the period under review compared to the same period last year. Gross loans and advances increased from GH¢33.82 billion in August 2018 to GH¢38.90 billion in August 2019, representing an increase of 15.0 percent compared to the contraction by 9.6 percent in the previous year. In nominal terms, the stock of credit to the private sector (comprising private enterprises and households) grew by 12.4 percent to GH¢35.16 billion in August 2019 following a contraction by 4.7 percent in August 2018. Credit to households edged up slightly to GH¢8.05 billion in August 2019 compared with GH¢7.51 billion in the same period last year, indicating an annual growth of 7.2 percent [See Annexes Table 2].

The share of private sector credit in total credit declined marginally in favour of loans to the public sector from 92.4 percent in August 2018 to 90.4 percent in August 2019. Loans to private enterprises constituted the largest share of private sector credit in total credit despite a marginal decline to 66.6 percent from 68.5 percent within the review period. A larger proportion of loans to private enterprises went to the indigenous companies. The proportion of households' credit in total industry credit also declined to 20.7 percent in August 2019 from 22.2 percent a year ago, while the share of credit to 'other' private entities increased to 3.1 percent from 1.7 percent during the same comparative period [See Annexes Table 4].

The share of credit to the public sector increased during the review period to 9.6 percent in August 2019 from 7.6 percent in August 2018. The increase was reflected in all components of public sector credit namely credit to the government, public institutions and public enterprises. Accordingly, the share of credit to government went up to 3.7 percent in August 2019 from 2.7 percent in August 2018, the share of loans to public institutions went up to 1.5 percent from 0.9 percent, while the proportion of public enterprises' credit in total credit increased to 4.4 percent from 4.0 percent, over the same review period [See Annexes Table 4].

In terms of credit distribution across the economic sectors, the commerce and finance sector received the highest share of 22.5 percent as at end-August 2019, followed by the services sector with a share of 22.4 percent. The manufacturing sector was the third largest recipient of industry credit accounting for 11.9 percent while the electricity, water and gas sector received 8.8 percent. The lowest share of industry credit of 3.8 percent went to the mining and quarrying sector while agriculture, forestry and fishing sector received 4.4 percent [See Figure 1].

3.2.2 Off-Balance Sheet Activities

The off-balance sheet activities of banks, largely comprising trade finance and guarantees, gained some momentum in August 2019, compared with the same period a year ago. Contingent liabilities of the banking sector totalled GH¢10.00 billion as at end-August 2019 compared with GH¢8.81 billion in August 2018, translating into a higher year-on-year growth rate of 14.9 percent, compared to the growth of 12.4 percent recorded a year earlier. The ratio of banks' contingent liabilities to total liabilities also went up to 10.2 percent from 9.7 percent over the same comparative period [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) contracted by 4.2 percent to GH¢6.91 billion in August 2019 from GH¢7.21 billion in August 2018. The decline in the stock of NPLs coupled with the recovery in credit growth translated into a lower NPL ratio of 17.8 percent in August 2019 from 21.3 percent in August 2018. When adjusted for the fully-provisioned loan loss category, the NPL ratio declined to 8.9 percent from 11.7 percent, signalling a slowdown in deterioration of loan quality and an indication that continued implementation of the loan write off policy and intensified loan recovery efforts will help address the incidence of high NPLs in the industry.

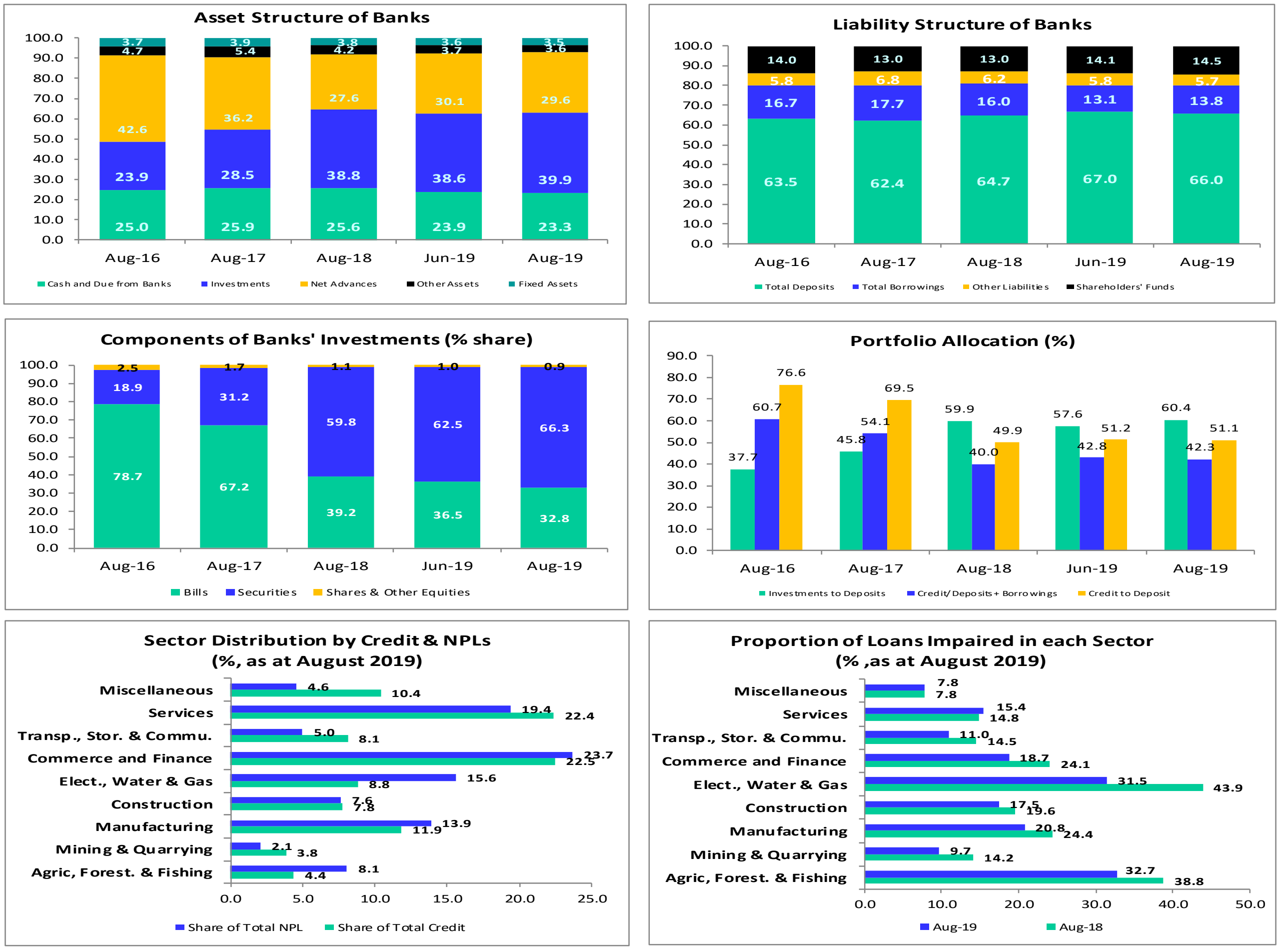
The private sector accounted for 97.6 percent of the industry's NPLs in August 2019, up from the 94.4 percent recorded in August 2018, while the public sector's contribution declined to 2.4 percent from 5.6 percent over the same comparative period. Indigenous private enterprises accounted for 73.7 percent of total NPLs in August 2019, slightly below the 74.6 percent share recorded in the same period in 2018, while the contribution of foreign enterprises declined to 8.5 percent from 10.3 percent. The share of households in industry

NPLs increased from 8.8 percent to 10.9 percent during the period under review, partly due to their increasing share of industry credit [See Annexes Table 4].

NPL sector analysis shows that the two largest recipients of credit, the commerce and finance sector and the services sector, also accounted for the largest proportions of NPLs in the banking industry in August 2019. Together, their NPLs represented 43.1 percent of total industry adversely classified loans, 23.7 percent of which was attributed to the commerce and finance sector. The electricity, gas and water sector with a relatively lower share of credit of 8.8 percent compared to the Manufacturing sector (11.9 percent) accounted for a higher share of non-performing loans of 15.6 percent, higher than the manufacturing sector's share of 13.9 percent. The Agriculture, Forestry and Fishing sector accounted for 8.1 percent of total NPLs while the Mining and Quarrying sector accounted for the least share of industry NPLs of 2.1 percent, in line with its least credit share of 3.8 percent as at end-August 2019 [See Figure 1].

With the exception of the services sector, improvements were recorded in the quality of loans to all sectors in August 2019 compared to August 2018. The electricity, water and gas sector had the highest proportion of loans impaired of 31.5 percent in August 2019, although this was a significant improvement over the August 2018 position of 43.9 percent. The Agricultural, Forestry and Fishing sector's NPL ratio, the second highest in the industry, similarly improved from 38.8 percent to 32.7 percent over the review period. The NPL ratio for the Services sector on the other hand, went up from 14.8 percent to 15.4 percent between August 2018 and August 2019. The mining and quarrying sector recorded the lowest sectoral NPL ratio of 9.7 percent as at end-August 2019, an improvement from the NPL ratio of 14.2 percent recorded a year earlier [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 showed broad improvements within the period under review.

3.3.1 Liquidity Indicators

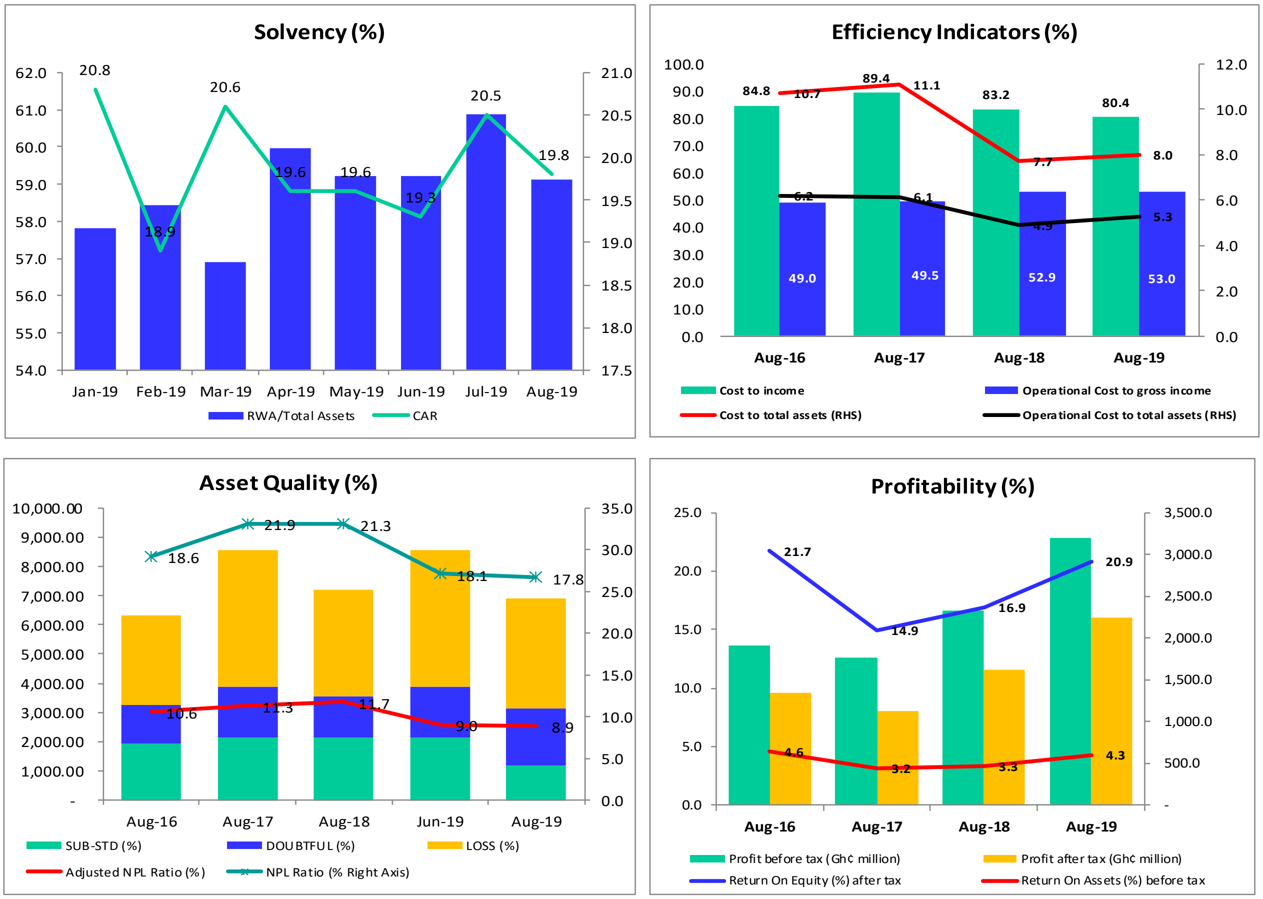
Liquidity remained strong in the banking sector during the review period in spite of marginal declines in the liquidity indicators. The ratio of core liquid assets (mainly cash and due from banks) to total deposits declined marginally to 35.3 percent in August 2019 from 39.5 percent in August 2018. The decline in the ratio was largely due to the fact that total deposits increased while cash holdings of banks declined as banks shifted the asset mix in favour of net advances [see Annexes Table 1]. Similarly, the ratio of broad liquid assets to total deposits moderated to 95.2 percent in August 2019 from 98.7 percent in August 2018.

The ratio of core liquid assets to total assets and broad liquid assets to total assets also declined marginally to 23.3 percent and 62.8 percent in August 2019 respectively from 25.6 percent and 63.9 percent in August 2018 [See Annexes Table 5].

3.3.2 Capital Adequacy Ratio (CAR)

The banking industry's solvency position in August 2019 remained strong with Capital Adequacy Ratio (CAR) under the Basel II/III framework of 19.8 percent, well-above the 13.0 percent prudential minimum which comprises the statutory minimum of 10.0 percent and the prudential buffer of 3.0 percent [See Figure 2].

Figure 2: Key Financial Soundness Indicators (FSIs)



3.3.3 Profitability

Profitability indicators of the banking sector pointed towards strong profit performance during the first eight months of 2019 compared with the same period last year. The industry recorded an after-tax profit of GH¢2.24 billion, a 38.4 percent growth over profits recorded by the banking sector for the same period last year (43.9 percent growth in August 2018). The strong profit performance was underpinned by higher growth in net interest income of 26.3 percent in August 2019 after recording a marginal contraction in August 2018, as well as modest growth in fees and commissions (12.0 percent in August 2019 compared to 14.6 percent in August 2018). The higher growth in net interest income reflected both higher interest income from investments and credit. However, the higher growth in operational expenses by 13.4 percent, against a favourable decline of 4.3 percent in the previous year moderated the effect of the strong growth in net interest income on net income. Similarly, a pickup in total provisions by 28.1 percent in August 2019 from a decline of 7.9 percent in August 2018 partly negated the positive effect of the growth in net interest income and fees and commissions on net income [See Annexes Table 7].

(a) Return on Assets and Return on Equity

The strong profit outturn during the review period translated into improved banking sector profitability indicators as 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 20.9 percent in August 2019 from 16.9

percent in August 2018 while the ROA, measured as the ratio of net income before-tax to average total assets increased to 4.3 percent from 3.3 percent during the same comparative period [See Figure 2 and Annexes Table 6].

(b) Interest Margin and Spread

Banks' interest spreads increased from 6.3 percent in August 2018 to 7.9 percent in August 2019 on the back of an increase in gross yield following the growth in earning assets (investments and credit) for the banks. Gross yield went up from 10.3 percent to 12.0 percent between August 2018 and August 2019, while interest payable recorded a marginal increase over the same comparative period. The ratio of gross income to total assets (asset utilisation) increased to 10.0 percent in August 2019 from 9.3 percent in August 2018, a reflection of the increased earnings potential for banking sector. The industry's interest margin to total assets also inched up to 5.2 percent from 4.5 percent, while the interest margin to gross income ratio increased to 51.9 percent from 48.6 percent. The industry's profitability ratio also went up to 19.5 percent in August 2019 from 16.7 percent a year earlier, underscoring the strong 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, investment income constituted the greatest proportion of banks' total income of 44.8 percent in August 2019, in line with its higher share of total assets compared to the other asset components. Income from loans was the second largest source of income for the banks. However, in spite of the rebound in credit growth, income from loans advanced as a share of total income declined from 36.0 percent in August 2018 to 34.5 percent in August 2019. The share of banks' income from commissions and fees also marginally declined to 12.1 percent in August 2019 from 12.8 percent a year earlier. Other income from ancillary banking services inched up to 8.6 percent of total income from 8.3 percent recorded during the same period in 2018 [See Figure 3].

3.3.4 Operational Efficiency

The efficiency of the banking industry in minimizing costs relative to income and assets largely improved during the review period with a positive change in the main indicator, the cost to income ratio, despite marginal weakening in the other indicators. With the exception of the cost to income ratio which improved from 83.2 percent in August 2018 to 80.4 percent in August 2019, the three other indicators pointed to a marginal decline in efficiency within the banking sector. Cost to total assets ratio increased to 8.0 percent from 7.7 percent while the operational cost to total asset ratio similarly went up to 5.3 percent from 4.9 percent during the same comparative period. Although marginal, the industry's operational cost to gross income ratio remained barely unchanged at 53.0 percent in August 2019 same as was recorded a year ago [See Figure 2].

3.4 Banks' Counterparty Relationships

Banks' offshore balances declined from GH¢10.33 billion in August 2018 to GH¢8.78 billion in August 2019, representing a contraction by 15.0 percent against a growth of 45.4 percent a year earlier. The contraction in banks' offshore balances was on account of declines in both banks' nostro balances and placements abroad. Accordingly, the ratio of offshore balances to net worth dropped significantly from 75.9 percent in August 2018 to 52.5 percent in August 2019, an indication of reducing exposure of the industry to cross-border risks [See Annexes Table 8].

Borrowing from external counterparties exceeded domestic borrowing in August 2019, the reverse of what pertained in August 2018. The share of foreign borrowing in total borrowing increased from 46.1 percent in August 2018 to 55.0 percent in August 2019 while the share of domestic borrowing in the total declined from 53.9 percent to 45.0 percent over the same comparative period. These external funds were mainly short-term in nature with the share of short-term funds in total external borrowing increasing to 69.5 percent in August 2019 from 63.3 percent a year earlier [See Figure 3].

Figure 3: Composition of Income, Cost and Borrowings

4. CREDIT CONDITIONS SURVEY

The overall credit stance on loans to enterprises by banks during the August 2019 credit conditions survey round indicated a net tightening in loans over the past 2 months, as projected during the June 2019 survey round [See Figure 4]. This was reflected in all the subcomponents of loans to enterprises. Banks, however, projected a net ease in the overall credit stance on loans to enterprises in the next two months reflected in all categories of loans with the exception of loans to large enterprises. The expectation of a softened stance on loans to enterprises is in line with the improvement in asset quality, which is expected to free up funds for on-lending by the banks.

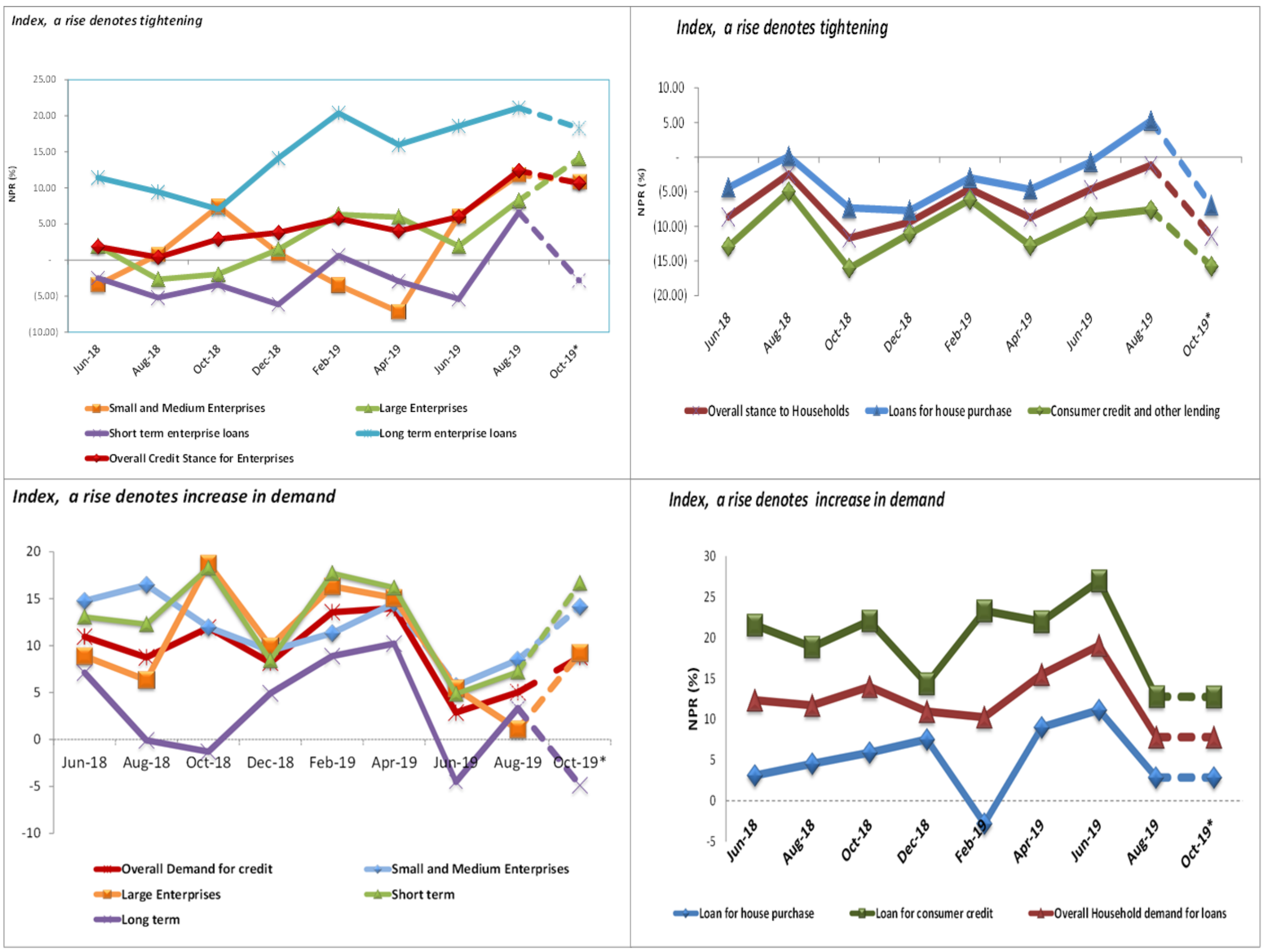
The survey findings also pointed to net tightening in banks' overall credit stance to households which reflected in both loans for house purchases and loans for consumer credit and other lending. Similar to the credit stance on loans to enterprises, banks' overall credit stance on loans to households, is projected to ease in the next two months.

Overall demand for credit increased during the August 2019 survey round and is projected to increase further in the next two months. With the exception of demand for loans by large enterprises which declined during the past two months, the survey results indicated a rise in the index for all the other subcomponents of loans. Also, banks projected increases in demand for all loan categories except long-term loans over the next two months.

The survey results however indicated a decline in demand for loans by households for house purchases and consumer credit over the past two months. Banks projected that demand for loans by households will remain unchanged in the next two months.

Banking sector inflation expectations remained well anchored in August 2019. There was, however, a marginal uptick in inflation expectations six months ahead, to 10.2 percent in August 2019 from 9.8 percent in June 2019. Inflation expectations were however below the 11.1 percent projected in August 2018. Banks' lending rate expectations however remained broadly unchanged in the August 2019 survey round at 22.7 percent.

Figure 4: Credit Conditions Survey Results



5. CONCLUSION AND OUTLOOK

The banking sector has remained well-capitalised, solvent, liquid and profitable with significant gains recorded since the completion of the reforms and recapitalisation exercise. The balance sheet of the banks remained strong with continued recovery in August 2019. Key financial soundness indicators also showed broad improvements in August 2019 compared with the same period in 2018, notable among which was the improvement in asset quality. The declining trend in the NPL ratio is expected to be sustained by improved credit risk management practices and loan recovery efforts on the part of banks in addition to continued compliance with the loan write-off policy.

ANNEXES

Table 1: Asset and Liability Structure of the Banking Sector

	Aug-16	Aug-17	Aug-18	Jun-19	Aug-19
Components of Assets (% of Total)					
Cash and Due from Banks	25.0	25.9	25.6	23.9	23.3
Investments	23.9	28.5	38.8	38.6	39.9
Net Advances	42.6	36.2	27.6	30.1	29.6
Other Assets	4.7	5.4	4.2	3.7	3.6
Fixed Assets	3.7	3.9	3.8	3.6	3.5
Components of Liabilities and Shareholders' Funds (% of Total)					
Total Deposits	63.5	62.4	64.7	67.0	66.0
Total Borrowings	16.7	17.7	16.0	13.1	13.8
Other Liabilities	5.8	6.8	6.2	5.8	5.7
Shareholders' Funds	14.0	13.0	13.0	14.1	14.5

Table 2: Credit Growth

	Aug-16	Aug-17	Aug-18	Jun-19	Aug-19
Gross Loans and Advances (GH¢m)	33,663.09	37,409.76	33,823.24	38,699.81	38,902.69
Nominal Growth (y-o-y)	16.4	11.1	(9.6)	(0.0)	15.0
Private Sector Credit (GH¢m)	28,532.68	32,792.11	31,267.08	35,082.31	35,155.25
Nominal Growth (y-o-y)	14.5	14.9	(4.7)	1.9	12.4
Household Loans (GH¢m)	4,844.60	5,670.59	7,511.02	8,405.80	8,048.46
Nominal Growth (y-o-y)	15.7	17.0	32.5	10.5	7.2

**** Excludes loans under Receivership***

Table 3: Contingent Liability

	Aug-16	Aug-17	Aug-18	Jun-19	Aug-19
Contingent Liabilities (GH₵)	6,175.2	8,075.9	8,806.6	9,961.2	10,001.4
Growth (y-o-y)	(9.7)	38.5	12.4	9.7	14.9
% of Total Liabilities	10.3	10.8	9.7	10.3	10.2

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

	Aug-17		Aug-18		Jun-19		Aug-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	**12.3**	**5.1**	**7.6**	**5.6**	**9.3**	**2.4**	**9.6**	**2.4**
i. Government	1.6	0.9	2.7	1.1	3.9	0.6	3.7	0.3
ii. Public Institutions	3.6	0.1	0.9	0.3	1.7	0.3	1.5	0.3
iii. Public Enterprises	7.2	4.1	4.0	4.2	3.8	1.5	4.4	1.8
b. Private Sector	**87.7**	**94.9**	**92.4**	**94.4**	**90.7**	**97.6**	**90.4**	**97.6**
i. Private Enterprises	71.0	89.4	68.5	85.0	66.4	83.6	66.6	82.2
o/w Foreign	8.5	10.1	9.5	10.3	10.3	9.0	10.4	8.5
Indigeneous	62.5	79.3	59.0	74.6	56.1	74.6	56.2	73.7
ii. Households	15.2	5.0	22.2	8.8	21.7	11.7	20.7	10.9
iii. Others	1.5	0.5	1.7	0.7	2.5	2.3	3.1	4.5

Table 5: Liquidity Ratios

	Aug-16	Aug-17	Aug-18	Jun-19	Aug-19
Liquid Assets (Core) - (GH¢'million)	17,379.6	22,264.8	26,764.4	26,983.0	26,853.94
Liquid Assets (Broad) -(GH¢'million)	33,618.9	46,430.9	66,890.3	70,082.1	72,350.01
Liquid Assets to total deposits (Core)-%	39.3	41.5	39.5	35.7	35.3
Liquid Assets to total deposits (Broad)- %	76.1	86.5	98.7	92.7	95.2
Liquid assets to total assets (Core)- %	25.0	25.9	25.6	23.9	23.3
Liquid assets to total assets (Broad)- %	48.3	53.9	63.9	62.1	62.8

Table 6: Profitability Indicators (%)

	Aug-16	Aug-17	Aug-18	Aug-19
Gross Yield	18.2	14.3	10.3	12.0
Interest Payable	7.8	6.7	4.0	4.1
Spread	10.4	7.5	6.3	7.9
Asset Utilitisation	12.6	12.4	9.3	10.0
Interest Margin to Total Assets	6.1	5.5	4.5	5.2
Interest Margin to Gross income	48.1	44.6	48.6	51.9
Profitability Ratio	15.2	10.5	16.7	19.5
Return On Equity (%) after tax	21.7	14.9	16.9	20.9
Return On Assets (%) before tax	4.6	3.2	3.3	4.3

Table 7: DMBs' Income Statement Highlights

	Aug-16	Aug-17	Aug-18	Aug-19	Aug-17	Aug-18	Aug-19
	(GH ¢'million)				Y-on-y Growth (%)		
Interest Income	7,379.4	9,007.9	7,647.1	9,088.9	22.1	(15.1)	18.9
Interest Expenses	(3,150.1)	(4,250.8)	(2,933.5)	(3,134.0)	34.9	(31.0)	6.8
Net Interest Income	**4,229.3**	**4,757.0**	**4,713.6**	**5,954.9**	**12.5**	**(0.9)**	**26.3**
Fees and Commissions (Net)	942.9	1,084.2	1,242.7	1,391.8	15.0	14.6	12.0
Other Income	477.3	581.5	801.0	985.2	21.8	37.8	23.0
Operating Income	5,649.6	6,422.8	6,757.3	8,331.9	13.7	5.2	23.3
Operating Expenses	(2,943.0)	(3,794.7)	(3,632.1)	(4,119.6)	28.9	(4.3)	13.4
Staff Cost (deduct)	(1,567.5)	(1,865.0)	(1,638.9)	(2,246.8)	19.0	(12.1)	37.1
Other operating Expenses	(1,375.6)	(1,929.7)	(1,993.2)	(1,872.7)	40.3	3.3	(6.0)
Net Operating Income	**2,706.5**	**2,628.0**	**3,125.2**	**4,212.4**	**(2.9)**	**18.9**	**34.8**
Total Provision (Loan losses, Depreciation & others)	- 790.3	- 855.6	- 787.8	- 1,009.4	8.3	(7.9)	28.1
Income Before Tax	**1,916.3**	**1,772.4**	**2,337.5**	**3,203.0**	**(7.5)**	**31.9**	**37.0**
Tax	(575.1)	(647.5)	(719.0)	(962.5)	12.6	11.0	33.9
Net Income	**1,341.1**	**1,124.9**	**1,618.5**	**2,240.4**	**(16.1)**	**43.9**	**38.4**
Gross Income	8,799.7	10,673.6	9,690.8	11,465.9	21.3	(9.2)	18.3

Table 8: Developments in Offshore Balances

	Aug-16	Aug-17	Aug-18	Jun-19	Aug-19
Offshore balances as % to Networth	61.5	63.3	75.9	57.8	52.5
Annual Growth in Offshore balances (%)	22.1	18.2	45.4	41.7	-15.0
Annual Growth in Nostro Balances (%)	-0.1	1.9	52.9	13.8	-14.9
Annual Growth in Placement (%)	70.1	39.0	39.0	82.8	-15.3