

CENTRAL BANKING

Elsie Addo Awadzi on turning around Ghana's banking system

The Bank of Ghana led a multi-pronged effort to rescue or resolve several banks and hundreds of smaller firms



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The Bank of Ghana is starting to emerge from an almost two-year effort to turn around its banking sector.

The action began in 2017 with the closure of two banks, says Elsie Addo Awadzi, deputy governor. Several other firms – seven more banks and hundreds of non-banks, including microfinance firms – were resolved in the subsequent months.

“A number of these banks had already been found to be insolvent, going as far back as 2015,” says Awadzi, speaking on the sidelines of *Central Banking's* autumn [training](#) series in Cambridge. When Ernest Addison took over as governor in April 2017, he made it a priority to turn things around. Cleaning up the banks was also a condition for International Monetary Fund support.

The work put great pressure on the central bank's staff. Supervisors started with an asset quality review, which showed many firms had "passed the stage where you could use supervisory tools to try to make them recover", says Awadzi. That necessitated the simultaneous resolution of several banks.

Pre-resolution planning was a huge job, to ensure technical assessments were right and the planned actions were legally watertight. Assessments for every firm had to be updated regularly in case they recovered. "That process was tedious," says the deputy governor.

Logistics were also challenging. When the central bank was ready to act, it needed security teams and new bank managers ready to swoop in and take over the administration of failing institutions. "For some things, you had to wait until the last minute because you didn't want the word out there," says Awadzi.

Additional issues emerged because Ghana had neither a resolution fund nor a deposit insurance fund. Some actions had to be put on hold while these were set up. Ultimately, the government provided the funding for both paying back depositors and covering the cost of managing the receiverships.

Many aspects of the resolution were challenged in the courts, and a few cases are ongoing. Awadzi says a strong legal framework backing up the central bank was essential in this regard. The central bank had broad powers to protect financial stability.

"Make sure you have a good legal framework in place," she urges other central banks that may find themselves in the same situation. "You may never need it if your institutions never fail, but what you don't want is to have failed institutions without the legal powers to act."

The banking system is now returning to stability, and trust is starting to be rebuilt, says Awadzi: "I like to say that, given the numbers involved, we did a pretty good job."

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