BANK OF GHANA
Banking Sector Report

March 2020

CONTENTS

1. PREFACE

The Bank of Ghana releases the Banking Sector Report after each Monetary Policy Committee (MPC) meeting. The Report provides an overview of banking sector developments, which served as input for economic assessment during the MPC session. Through the publication, Bank of Ghana aims to promote accountability and transparency in the monetary policy formulation and implementation 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 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 include promoting and maintaining a sound financial sector and payment systems through effective regulation and supervision as spelt out in Bank of Ghana Act 2016 (Act 918, *as amended*. This is important for financial intermediation and effective transmission of monetary policy decisions.

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 the Inflation Targeting (IT) Framework, which uses 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 by 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, the Bank publishes the MPC Press Release after the press conference held at the end of each MPC meeting to communicate and explain the Committee's decisions to the financial markets and the public.

2. SUMMARY

This report discusses developments in the banking sector based on the prudential returns of the twenty-three (23) banks as at February 2020.

The banking sector showed improved financial performance at end-February, characterized by stronger total assets growth, higher credit growth to the private sector and strong growth in deposits as confidence in the sector firmed up. The industry’s profit after tax was also higher relative to the same period last year. In addition, indicators of financial soundness pointed to a solvent, liquid and profitable banking sector. The industry’s measure of solvency, the Capital Adequacy Ratio (CAR) under the Basel II/III framework remained well above the regulatory 13 percent prudential limit. Asset quality also improved reflected in declines in the Non-Performing loans (NPL) ratio on the back of recoveries, write-offs, and increased credit growth.

Despite the strong performance of the banking sector, initial assessments of the potential impact of the COVID-19 pandemic indicates that banks’ operations may face challenges with credit extension, loan repayment, and correspondent banking relationships. To help mitigate such effects on banks and the wider economy, the Bank of Ghana has announced policy measures to boost financial intermediation while minimising the risk of deterioration in asset quality. The Bank of Ghana will continue to monitor on-going developments to ensure the safety and soundness of the overall financial system in the midst of the COVID-19 pandemic.

3. BANKING SECTOR DEVELOPMENTS

3.1 Banks' Balance Sheet

Banks recorded a stronger annual growth in total assets in February 2020 compared with a year earlier. Total assets of the banking sector amounted to GH¢128.33 billion in February 2020 representing a year-on-year growth of 17.8 percent compared to 14.5 percent recorded in February 2019. The strong growth in total assets reflected in both domestic and foreign assets. The more pronounced growth of 18.7 percent in domestic assets compared to the 8.2 percent increase in foreign assets resulted in the share of domestic assets in total assets inching up from 91.5 percent to 92.2 percent over the period [See Table 1].

The strong growth in total assets was on the back of a rebound in credit growth. Gross loans and advances rose by 26.0 percent to GH¢45.91 billion in February 2020, following a subdued growth of 1.9 percent a year earlier. Similarly, net loans and advances (that is, after adjusting gross loans for provisions and interest in suspense), grew by 27.2 percent to GH¢40.47 billion against a marginal pick-up of 4.8 percent in February 2019. The rebound in credit growth underscores the positive impact of higher capital levels and sustained deposit growth in supporting intermediation. The cedi equivalent of foreign currency loans (net) went up slightly by 6.0 percent, indicating a decline in foreign currency loans in real terms during the period under review.

Investments remain the largest component of banks' assets but its contribution to growth in assets has waned. Growth in investments, consisting of bills, securities, and equity slowed to 7.2 percent in February 2020 from 33.3 percent a year earlier. The slower growth in total investments is partly a reflection of the base effects of the special (long-term) resolution bonds issued to Consolidated Bank Ghana (CBG), which increased the investment balance in February 2019. In spite of these developments, total investments of GH¢46.57 billion remains the largest component of total assets at end-February 2020 but its share in total assets dipped from 39.9 percent to 36.3 percent during the period.

The industry continues to record strong and sustained growth in deposits. Total deposits grew by 15.6 percent to GH¢83.10 billion as at end-February 2020 suggesting sustained confidence in the sector. This compares with the 20.0 percent deposit growth recorded a year earlier. It is worth noting that deposits continue to be mobilised mainly from the domestic economy, with a share of 99.6 percent, while the share of deposits from non-residents remains negligible at 0.4 percent [See Table 1].

Financial intermediation is deepening. Following the developments in credit and deposits, the industry's loan-to-deposit ratio (gross loans to total deposits), a key measure of financial intermediation, increased from 51 percent to 55 percent over the two comparative periods. This indicates deepening financial intermediation.

Banks increased borrowings to support credit growth. In line with the rebound in credit, and with credit growth outstripping growth in deposits, banks had to rely on additional borrowings to support credit expansion. Accordingly, total borrowings increased by 30.7 percent compared with the decline of 6.3 percent in the prior year. The growth in borrowings however came mainly from the short-term end, with short-term domestic and short-term foreign borrowings accounting for about 98 percent of the increase.

Banks shareholders' funds position remains strong, with the higher capital base supported by increased profitability. The stronger profit outturn boosted the reserves position of banks, and led to an increase in the industry's shareholders' funds by 14.6 percent to GH¢18.28 billion in February 2020. The previous year's growth of 18.0 percent was because of the marked increases in the industry's paid-up capital due to the recapitalisation exercise. The strong capital and shareholders' funds positions strengthen the stability and resilience of the banking sector.

Overall, the banking sector's strong financial performance during the first two months of the year reflects continued positive dividends from the regulatory reforms. Although this strong performance could continue, the ramifications of the on-going COVID-19 pandemic poses a major risk to the industry's operations and performance. It is however expected that the proactive policy measures (see Box 1) taken by the Bank of Ghana will help minimise the associated downside risks.

Table 1: Key Developments in DMBs' Balance Sheet

	GH¢ million					Y-on-Y Growth (%)			Shares (%)		
	Feb-17	Feb-18	Feb-19	Dec-19	Feb-20	Feb-19	Dec-19	Feb-20	Feb-19	Dec-19	Feb-20
TOTAL ASSETS	**83,632.2**	**95,122.4**	**108,903.6**	**128,979.5**	**128,333.6**	**14.5**	**22.7**	**17.8**	**100.0**	**100.0**	**100.0**
A. Foreign Assets	8,342.4	8,631.0	9,227.7	10,377.1	9,985.3	6.9	19.8	8.2	8.5	8.0	7.8
B. Domestic Assets	75,289.8	86,491.3	99,675.9	118,602.4	118,348.3	15.2	23.0	18.7	91.5	92.0	92.2
Investments	24,389.0	32,593.5	43,446.2	48,307.3	46,573.1	33.3	26.6	7.2	39.9	37.5	36.3
i. Bills	18,618.9	17,478.4	14,220.9	14,975.4	13,319.5	(18.6)	21.0	(6.3)	13.1	11.6	10.4
ii. Securities	5,344.9	14,690.3	28,820.6	32,880.5	32,801.5	96.2	29.5	13.8	26.5	25.5	25.6
Advances (Net)	31,254.5	30,371.1	31,815.9	39,959.6	40,471.8	4.8	25.7	27.2	29.2	31.0	31.5
of which Foreign Currency	9,110.7	8,571.4	11,367.5	12,118.7	12,051.9	32.6	21.5	6.0	10.4	9.4	9.4
Gross Advances	35,976.0	35,758.0	36,435.5	45,170.0	45,910.8	1.9	23.8	26.0	33.5	35.0	35.8
Other Assets	3,578.0	4,062.7	3,857.8	5,124.9	5,520.0	(5.0)	40.7	43.1	3.5	4.0	4.3
Fixed Assets	2,997.0	4,245.7	4,152.4	4,652.1	4,719.2	(2.2)	14.3	13.7	3.8	3.6	3.7
TOTAL LIABILITIES AND CAPITAL	**83,632.2**	**95,122.4**	**108,903.6**	**128,979.5**	**128,333.6**	**14.5**	**22.7**	**17.8**	**100.0**	**100.0**	**100.0**
Total Deposits	53,205.5	59,898.6	71,863.4	83,459.8	83,101.9	20.0	22.2	15.6	66.0	64.7	64.8
of which Foreign Currency	15,081.1	14,920.7	18,889.2	24,001.4	23,224.8	26.6	43.0	23.0	17.3	18.6	18.1
Total Borrowings	13,863.0	15,199.7	14,239.0	20,446.9	18,610.6	(6.3)	37.9	30.7	13.1	15.9	14.5
Foreign Liabilities	4,361.1	4,372.2	8,071.1	9,923.5	10,064.7	84.6	31.3	24.7	7.4	7.7	7.8
i. Short-term borrowings	2,076.2	1,839.6	4,525.4	6,710.3	6,751.0	146.0	54.9	49.2	4.2	5.2	5.3
ii. Long-term borrowings	1,898.5	2,180.7	3,076.3	2,856.9	2,988.2	41.1	0.2	(2.9)	2.8	2.2	2.3
iii. Deposits of non-residents	386.4	351.8	469.4	356.2	325.5	33.4	(4.3)	(30.7)	0.4	0.3	0.3
Domestic Liabilities	67,685.9	77,165.1	84,858.6	101,463.0	99,987.1	10.0	22.6	17.8	77.9	78.7	77.9
i. Short-term borrowing	8,534.9	9,832.0	5,908.5	9,759.6	7,819.5	(39.9)	44.3	32.3	5.4	7.6	6.1
ii. Long-term Borrowings	1,353.5	1,347.3	728.8	1,120.0	1,051.9	(45.9)	27.6	44.3	0.7	0.9	0.8
iii. Domestic Deposits	52,819.1	59,546.7	71,394.0	83,103.6	82,776.4	19.9	22.4	15.9	65.6	64.4	64.5
Other Liabilities	4,999.0	6,503.4	6,851.9	7,479.9	8,339.4	5.4	2.6	21.7	6.3	5.8	6.5
Paid-up capital	4,135.1	5,053.1	8,858.1	9,633.2	9,763.2	75.3	11.3	10.2	8.1	7.5	7.6
Shareholders' Funds	11,546.2	13,516.1	15,949.3	17,592.9	18,281.7	18.0	19.7	14.6	14.6	13.6	14.2

Source: Bank of Ghana

3.1.1 Asset and Liability Structure

The asset structure of the banking industry's balance sheet did not change substantially over the period. Investments continued to dominate although its share in total assets declined to 36.3 percent in February 2020 from 39.9 percent in February 2019. Loans and advances (net) represent the second largest component with its share moving up to 31.5 percent from 29.3 percent over the period on account of the strong growth in credit. Cash and Due from Banks followed with a marginal increase in its share to almost a quarter of total assets. The share of fixed and 'other' assets, which constitute the non-earning assets of banks, remained virtually unchanged at 8 percent [See Annexes Table 1].

The high share of investments in total assets in Feb-2019 was largely due to the special (long-term) resolution bonds issued to Consolidated Bank Ghana (CBG), with the loan book transferred to the Receiver. The gradual pick-up in the share of net advances was on the back of the strong rebound in credit post-recapitalization.

On the liability side, deposits continued to dominate the funding mix of banks. The share of deposits however dipped marginally to 64.8 percent from 66.0 percent over the two corresponding periods. The strong growth in borrowings during the review period lifted its share to 14.5 percent from 13.1 percent and overtook the share of Shareholders' Funds. The Shareholders' Funds component dipped marginally to 14.2 percent from 14.6 percent. The share of 'other liabilities' remained virtually unchanged at 6.5 percent [See Annexes Table 1].

3.1.2 Share of Banks' Investments

Banks' investment portfolio as at end-February 2020 was in favour of long-term debt instruments (securities). The share of securities further increased to 70.4 percent in February 2020 from 66.3 percent in February 2019. The proportion of short-term bills in total investments accordingly declined to 30.9 percent from 32.7 percent between the two periods. The share of investments in equities remained negligible, at 0.9 percent [See Figure 1].

3.2 Credit Risk

The industry's exposure to credit risk moderated in February 2020 relative to February 2019. A combination of high loan recoveries, write offs, and increases in credit led to significant improvement in asset quality within the period.

3.2.1 Credit Portfolio Analysis

The steady increase in credit observed during the last quarter of 2019 continued and culminated in the strong year-on-year credit growth in February 2020. Gross loans and advances (excluding the loans under receivership) increased by 26.0 percent to GH¢45.91 billion in February 2020, as against the marginal growth of 1.9 percent during same period in 2019. The stronger credit growth reflected in all the major categories. Private sector credit recorded a growth of 21.0 percent to GH¢40.05 billion, higher than the 4.1 percent growth in February 2019. Household credit similarly grew by 19.0 percent to GH¢8.93 billion, after increasing by 11.9 percent in the previous year [See Annexes Table 2].

The private sector continues to dominate the loan book although its share marginally declined to 87.5 percent in February 2020 from 90.7 percent in February 2019 (Annexes Table 4). A further breakdown of private sector credit shows that indigenous enterprises remain the largest recipient of total industry credit.

In terms of classification, the services sector maintained its lead with the highest share of credit, followed by the commerce and finance sector (Figure 1). Together with the manufacturing sector, these three sectors accounted for 52.5 percent of total credit with respective shares of 24.6 percent, 20.8 percent, and 10.6 percent as at end-February 2020. The other economic sectors accounted for the remaining 47.5 percent in various proportions (see Figure 1). The mining and quarrying sector remained the lowest recipient of industry credit with a share of 2.7 percent.

3.2.2 Off-Balance Sheet Activities

In line with the increased core banking business occasioned by the growth in deposits, credits and total assets, off-balance sheet activities of the industry also increased. Off-balance sheet transactions (largely comprising trade finance and guarantees) increased by 17.2 percent in February 2020, compared to 8.1 percent growth in February 2019. Banks' contingent liabilities of GH¢10.72 billion however constituted 9.7 percent of total liabilities as at end-February, 2020, a decline from the share of 10.5 percent in the previous year [See Annexes Table 3].

3.2.3 Asset Quality

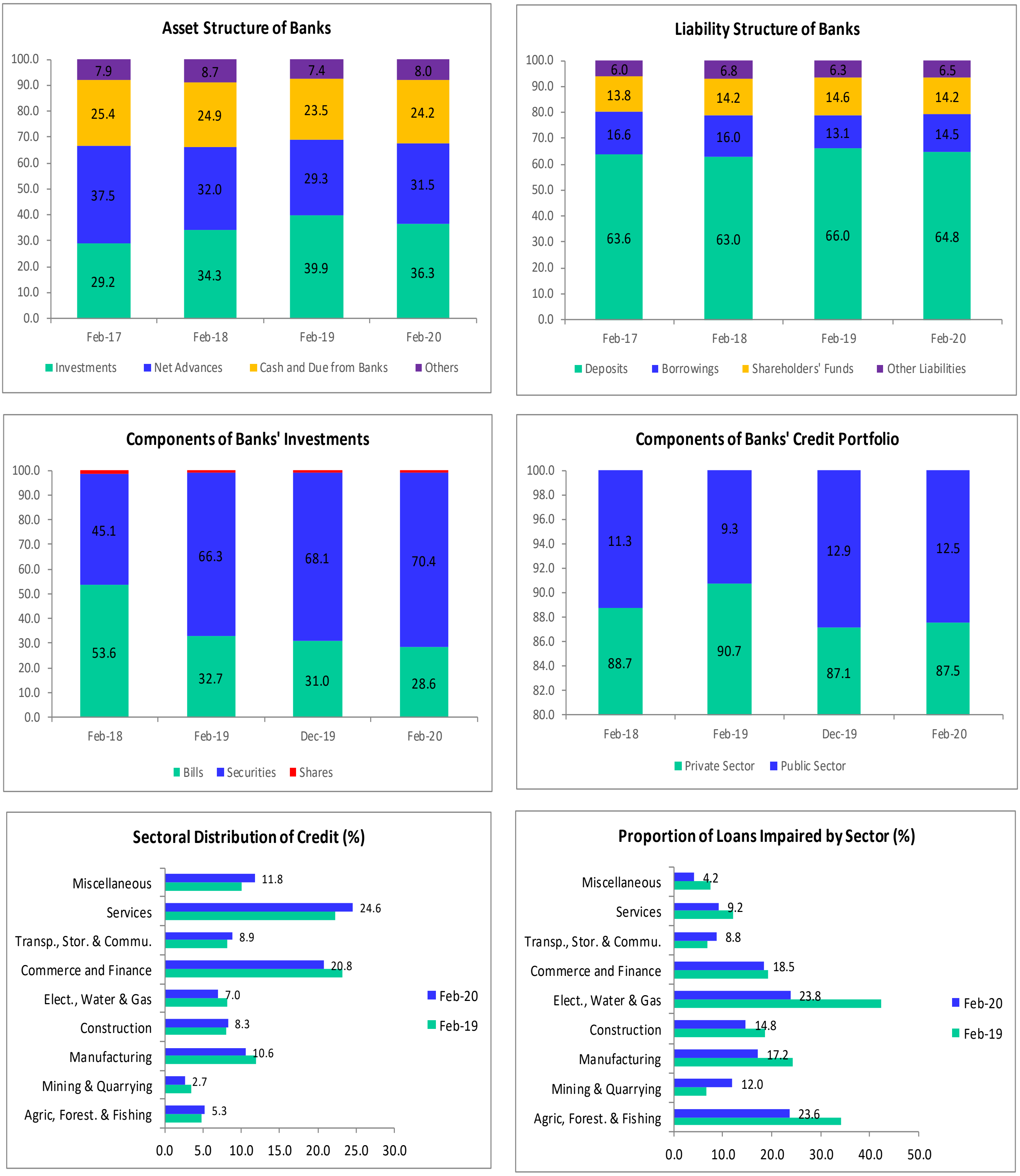
Asset quality improved due to a combination of both recoveries and further write-offs. Total Non-Performing Loans (NPLs) contracted further by 4.5 percent to GH¢6.33 billion in February 2020, following a decline of 14.4 percent a year earlier. The positive effect of the decline in the stock of NPLs on the NPL ratio underpinned by the rebound in gross credit. This resulted in a decline in the NPL ratio to 13.8 percent February 2020 from 18.2 percent in February 2019. Consequently, the industry's NPL ratio adjusted for fully provisioned loan loss category also declined from 9.4 percent to 5.2 percent.

The distribution of NPLs among borrower groups reflected both the share of credits and the risk dynamics of these groups. Accordingly, the higher share of private sector loans translated to a larger share of NPLs due to the generally higher risk profile of the private sector. This also reflected in the sub-components of the private sector. NPLs of indigenous enterprises accounted for almost three quarters of total NPLs although banks halved credit to this segment due to their relatively higher credit risk. Foreign enterprises, households or individuals, and government accounted for relatively lower respective shares of 9.2 percent, 7.9 percent, and 2.7 percent due to their lower credit allocation and better credit risk profiles [See Annexes Table 4].

The decline in the industry NPL ratio broadly reflected the trends in NPL ratios across the various sectors. There was broad improvement in the NPL ratios across most of the sectors, except for the mining & quarrying and the transportation, storage & communication sectors. In particular, sectors with the highest NPL ratios in the industry recorded significant improvements in asset quality within the review period. The NPL ratio declined from 42.3 percent to 23.8 percent for the electricity, water & gas sector and from 34.1 percent to 23.6 percent for the agricultural, forestry & fishing sector. were by the Transport, storage & communication, services and the mining & quarrying sectors recorded the lowest NPL ratios of 8.8 percent, 9.2 percent, and 12.0 percent respectively [See Figure 1].

Looking ahead, the COVID-19 pandemic poses a major risk to asset quality. However, the recently announced policy measures could help moderate any potential deterioration in asset quality (See Box 1).

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



3.3 Financial Soundness Indicators

In addition to the enhanced asset quality position (discussed in the previous section), other financial soundness indicators of solvency, liquidity, profitability and efficiency of the banking sector showed broad improvements in February 2020.

3.3.1 Liquidity Indicators

Core liquidity strengthened further in February 2020 as the ratio of core liquid assets (mainly cash and due from banks) to total deposits improved to 37.3 percent from 35.6 percent same time last year. This shows that banks are in a stronger position to meet depositors' withdrawals from readily available funds. In addition, the ratio of core liquid assets to total assets improved to 24.2 percent from 23.5 percent over the period [See Annexes Table 5].

Broad measures of liquidity however registered some marginal declines. Broad liquid assets to deposits ratio was 92.8 percent, a dip from 95.4 percent last year. The strong liquid assets to deposit ratio suggests that almost 93 percent of all deposits could be repaid from liquid assets (including investments).

3.3.2 Capital Adequacy Ratio (CAR)

Solvency remains strong with a CAR of 20.2 percent as at end-February 2020 well above the prudential limit of 13.0 percent under the Basel II/III framework [See Figure 2]. The strong solvency position enhances the ability of banks to deepen intermediation and strengthen capacity to absorb potential losses from credit, operational, and market risks, underscoring stronger banking sector stability. As part of the policy response to minimise the risks associated with the COVID-19 pandemic, the Bank of Ghana lowered the prudential limit from 13.0 percent to 11.5 percent. This policy's intention is to remove constraints that the high prudential CAR could pose in extending credit to the critical sectors of the economy, to support efforts at containing the COVID-19 pandemic. [See Box 1].

Figure 2: Key Financial Soundness Indicators (FSIs)

3.3.3 Profitability

Banks' profit outturn was stronger in the first two months of 2020, with a 38.8 percent growth in profits in February 2020. This was higher than the 31.5 percent growth in the same period last year, because of significant increases in banks' income, which outpaced the growth in operating expenses.

Net interest income grew by 25.9 percent on the back of a 22.0 percent growth in interest income, higher than the 14.0 percent increase in interest expenses. With declining interest rates over the period, growth in interest income and interest expense was mainly on the back of increased business volumes. The strong growth in credit as well as the high level of investments contributed to the interest income growth, while the increased deposits and borrowings accounted for the increase in interest expense. Net fees and commissions and other income picked up strongly on the back of increased banking activities (both core and off-balance sheet) as observed earlier.

Total operating expenses also grew by 18.6 percent in February 2020 compared with 8.6 percent in February 2020, due to increased staff costs and other operating expenses. Similarly, total provisions (loan loss provisions and depreciation) recorded a higher growth of 6.5 percent in February 2020 than the 2.2 percent recorded in February 2019. However, operational costs remained the highest expenditure item for banks, followed by interest expenses [See Annexes Table 7 and Figure 3].

(a) Return on Assets and Return on Equity

The stronger profit outturn translated into improved profitability indicators. Return on Equity (ROE) went up by 25.5 percent at end-February 2020 from 20.1 percent at end-February 2019. Return on Assets (ROA) also grew by 4.9 percent compared with 4.2 percent. Increases in both ratios signify enhanced resource utilisation of both shareholders' funds and total assets over the comparative periods [See Figure 2 and Annexes Table 6].

(b) Interest Margin and Spread

Banks' interest spreads widened within the review period on the back of increased income from earning assets (credits and investments). The industry's gross yield improved in February 2020, relative to February 2019 while the ratio of interest expenses to interest bearing liabilities (comprising mainly of deposits and borrowings) remained stable. This resulted in the widening of the interest spread 2019 to 2.1 percent in February 2020 from 1.9 percent in February. The industry's interest margin to total assets also inched up to 1.4 percent from 1.3 percent, while the interest margin to gross income ratio increased to 55.2 percent from 53.1 percent.

Though incomes were higher, similar growth in assets implied that the ratio of gross income to total assets (asset utilisation) remained relatively stable during the review period. Hence, for each asset in use, the income generated was almost the same in February 2020 as in February 2019. The industry's profitability ratio however, went up to 23.3 percent in February 2020 from 20.3 percent a year earlier, driven by the strong profit performance [See Annexes Table 6].

(c) Composition of Banks' Income

The strong credit growth resulted in an increase in the share of income from loans compared with the share of other income sources. The share of interest income from loans in total income increased to 38.7 percent from 35.9 percent during the review period. Other sources of income for banks, namely, investments and fees and commissions recorded declines in their relative shares within the same comparative period. In spite of these developments, the components of the banking industry's income continued to reflect its assets composition. As such, the share of income from investments remained the largest, followed by income from loans, fees and commissions and other income [See Figure 3].

3.3.4 Operational Efficiency

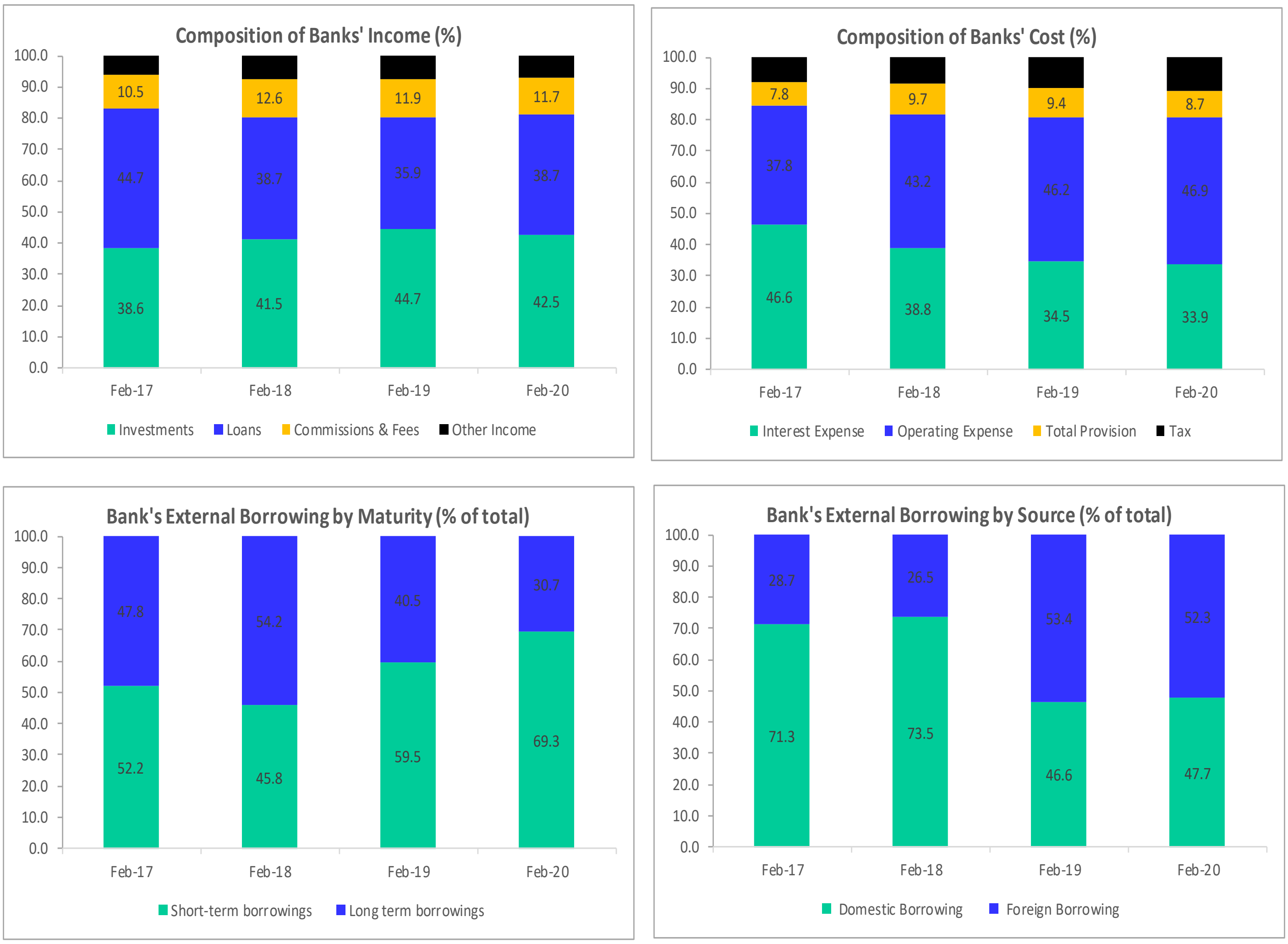
Key efficiency measures also showed broad improvements. The industry's cost-to-income ratio improved to 76.5 percent in February 2020 from 79.4 percent in February 2019, while cost to total assets remained unchanged at 2.0 percent over the period. Despite the high annual growth in operational cost in February 2020, the ratio of operational cost to gross income declined from 52.0 percent to 50.6 percent on account of the higher growth in gross income during the period. The ratio of operational cost to total assets also remained unchanged at 1.3 percent during the period [See Figure 2].

3.4 Banks' Counterparty Relationships

The banking industry's exposure to cross-border risks remained broadly stable during the period under review. Borrowings from foreign counterparties increased marginally by 7.7 percent in February 2020, compared with 7.5 percent recorded in the previous year. The decline in placements offset growth in nostro balances, resulting in the stable growth in offshore balances within the period [See Annexes Table 8].

A large proportion of banks' borrowings was from external sources in February 2020. The share of foreign borrowings in total borrowings however declined to 52.3 percent from 53.4 percent within the review period. Banks' external borrowing was mainly short-term in nature. The share of short-term funds in total external borrowing increased to 69.3 percent from 59.5 percent over the comparative period [See Figure 3].

Figure 3: Composition of Income, Cost and Borrowings

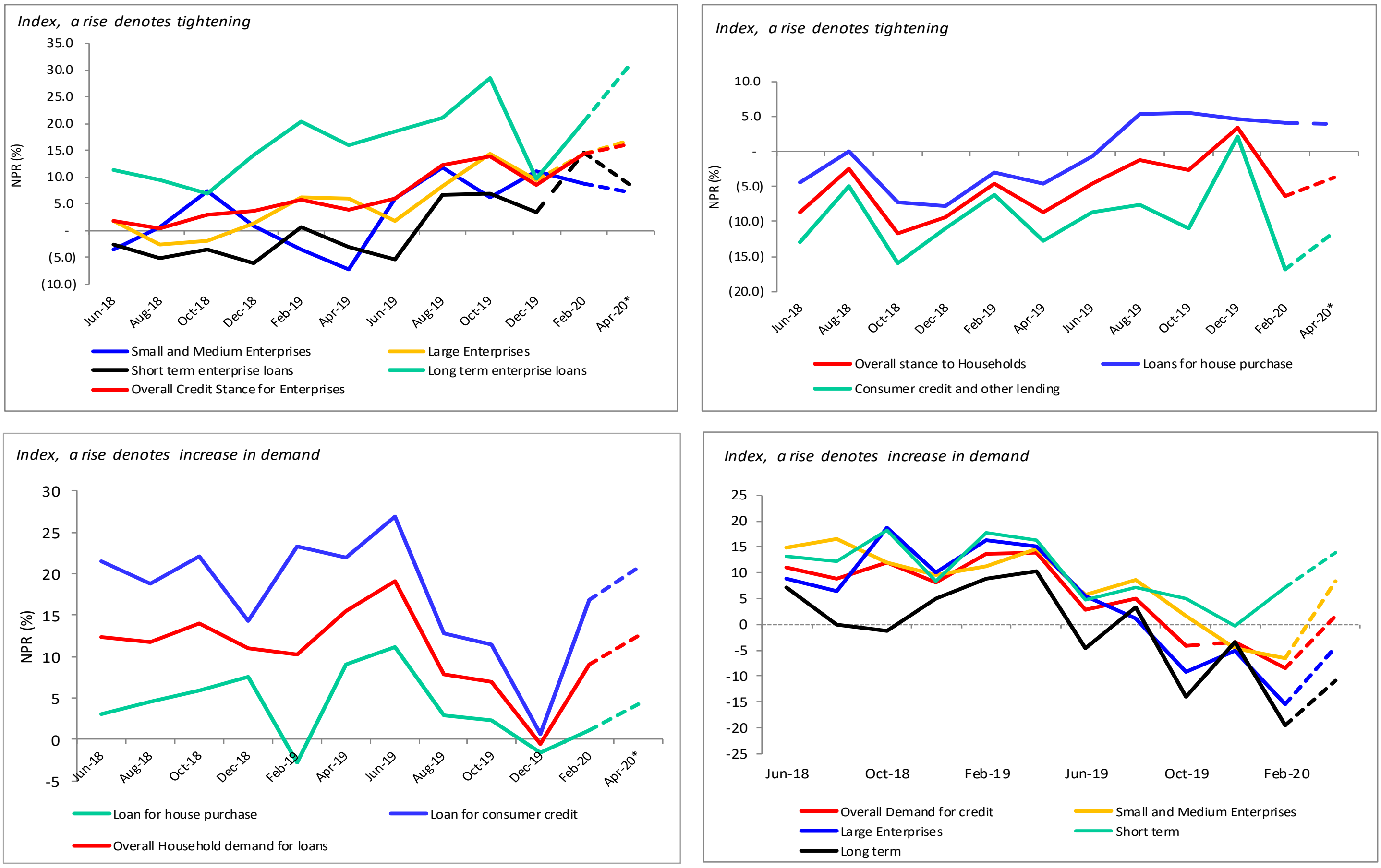


4. CREDIT CONDITIONS SURVEY

The February 2020 credit conditions survey round revealed that banks reported net tightening in the overall credit stance on loans to enterprises, except SME loans, , with the likelihood of further tightening two months ahead. Prospects of further tightening for enterprises seems to reflect banks' response to the fallouts from the COVID-19 pandemic.

Banks' similarly expected net tightening of the credit stance on loans to households in the outlook, even though the credit stance on household loans eased during the first two months of 2020. The survey also pointed to a decline in the overall demand for credit by enterprises, emanating from all sub-components of loans except short-term loans. Banks however reported a net increase in demand for loans by households. Increases in demand for all sub-components of enterprise loans and household loans are also likely during March-April 2020. [See figure 4].

Figure 4: Credit Conditions Survey Results



5. CONCLUSION AND OUTLOOK

The banking sector's performance revealed strong growth in total assets, credit, deposits, and profits. The improved financial soundness indicators further cemented the stability and resilience of the sector. In particular, solvency, liquidity, asset quality, efficiency and profitability improved in the review period. The major risk in the outlook is the potential impact of the COVID-19 pandemic on the financial sector. Proactive policy measures announced by the Bank of Ghana should provide some support and help moderate some of the potential risks from the COVID-19 pandemic.

Box 1. Bank of Ghana's Response to the Potential Impact Of Covid-9 on the Banking Sector

The World Health Organization (WHO) on March 11, 2020 declared the Coronavirus (COVID-19) a pandemic following the increasing number of confirmed cases around the world and the heightened risk of further cross-border transmission of the virus. Global policy responses in containing the spread of the virus and addressing the disruption in economic activities occasioned by the pandemic have been massive across both advanced economies and emerging economies.

The Bank of Ghana has announced policy measures aimed at minimizing the potential negative impact of COVID-19 on the economy and the banking sector. This Box reviews these policy measures, which seek to address the potential downside risks of COVID-19 on the banking sector.

(i) Lowering of the Monetary Policy Rate (MPR) by 150 basis points to 14.5 percent.

With COVID-19 negatively affecting international trade (both exports and imports), taxes, and foreign exchange receipts, there are indications that economic activity will slow down considerably. In the worst-case scenario, GDP growth estimates could decline sharply due to the COVID-19 pandemic. With growth under threat and inflation subdued, the MPC lowered the policy rate to 14.5 percent from 16.0 percent to help minimise the potential risks to growth. This reduction is expected to transmit to lower bank lending rates and help ameliorate the challenges in securing credit at reasonable rates during this difficult socio-economic environment.

(ii) Reduction in Primary Reserve Requirements from 10 percent to 8 percent.

By this policy, additional liquidity becomes available to banks for on lending to critical sectors of the economy to moderate the expected slowdown in growth. The MPC had previously announced a proposal to reduce the primary reserve requirements from 10 percent to 8 percent to support an Enterprise Credit Scheme in support of the SME sector. This policy initiative therefore broadens the scope to all banks and expands the coverage of channeling the additional funds to support lending to all critical sectors of the economy.

(iii) Reduction in prudential limit of Capital Adequacy Ratio from 13.0 percent to 11.5 percent

The reduction in the prudential limit on Capital Adequacy Ratio (CAR) is intended to support the extension of additional credit by banks. Reducing the minimum CAR is to remove credit extension constraints that some banks may face in increasing their loan book due to CAR restrictions. This policy therefore complements the reduction in primary reserves in helping to boost credit expansion to support critical sectors of the economy.

(iv) Reduction in provisions for loans in the OLEM category from 10 percent to 5 percent

The reduction of provisions for loans in the "Other Loans Especially Mentioned" (OLEM) category from 10 percent to 5 percent seeks to address the impact of difficulties in loan repayments due to the slowdown in economic activity. It is envisaged that the disruptions in economic activity resulting from COVID-19 will increase the credit risk of customers and create repayment challenges, which could increase the NPL ratios as well as increase loan loss provisions of banks. The reduction in the provision for loans in the OLEM category could therefore minimize the impact of the potential challenges of NPLs on loan loss provisions and profit margins of banks.

(v) Classification of loan repayments past due for MFIs for up to 30 days as Current

Loan repayments that are past due for Microfinance Institutions (MFIs) for up to 30 days is classified as "Current" as is the case for all other SDIs. This policy is to make loan classification and related provisioning norms less stringent for Microfinance institutions, just as is the case for all other categories of SDIs, and help minimize the impact of loan repayment challenges on MFIs.

Conclusion

The Bank of Ghana has put in place a monitoring mechanism to enhance the effectiveness of the above policy measures in achieving the stated policy objectives. The monitoring process will ensure that the additional liquidity released from these policies does not move to investment in government securities and paying dividends to shareholders. Banks and SDIs are therefore required to seek Bank of Ghana's prior approval in writing before the declaration and payment of dividends. It is the expectation that these policy measures will help minimize the adverse impact of COVID-19 and the associated downside risks in the banking sector. The Bank of Ghana will continue to monitor emerging developments in this regard and will respond appropriately to ensure the stability, safety and soundness of the banking sector to support economic development.

ANNEXES

Table 1: Asset and Liability Structure of the Banking Sector

	Feb-17	Feb-18	Feb-19	Dec-19	Feb-20
Components of Assets (% of Total)					
Cash and Due from Banks	25.4	24.9	23.5	24.0	24.2
Investments	29.2	34.3	39.9	37.5	36.3
Net Advances	37.5	32.0	29.3	31.0	31.5
Other Assets	4.3	4.3	3.5	4.0	4.3
Fixed Assets	3.6	4.5	3.8	3.6	3.7
Components of Liabilities and Shareholders' Funds (% of Total)					
Total Deposits	63.6	63.0	66.0	64.7	64.8
Total Borrowings	16.6	16.0	13.1	15.9	14.5
Other Liabilities	6.0	6.8	6.3	5.8	6.5
Shareholders' Funds	13.8	14.2	14.6	13.6	14.2

Table 2: Credit Growth

	Feb-17	Feb-18	Feb-19	Dec-19	Feb-20
Gross Loans and Advances (GH¢m)	36,070.27	35,862.91	36,483.06	45,170.02	45,751.83
Nominal Growth (y-o-y)	19.5	(0.6)	1.7	23.6	25.4
Private Sector Credit (GH¢m)	31,015.63	31,797.27	33,098.66	39,364.91	40,049.55
Nominal Growth (y-o-y)	17.5	2.5	4.1	17.9	21.0
Household Loans (GH¢m)	4,955.69	6,708.87	7,505.25	9,409.71	8,932.53
Nominal Growth (y-o-y)	6.8	35.4	11.9	12.6	19.0

**** Excludes loans under Receivership***

Table 3: Contingent Liability

	Feb-17	Feb-18	Feb-19	Dec-19	Feb-20
Contingent Liabilities (GH¢)	7,341.8	8,883.7	9,733.0	11,440.4	10,716.0
Growth (y-o-y)	8.8	31.3	8.1	16.2	17.2
% of Total Liabilities	10.2	10.9	10.5	10.3	9.7

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

	Feb-18		Feb-19		Dec-19		Feb-20	
	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	**11.3**	**7.3**	**9.3**	**3.1**	**12.9**	**3.2**	**12.5**	**2.7**
i. Government	2.4	1.0	3.6	1.0	5.3	0.3	5.6	0.2
ii. Public Institutions	2.2	0.4	1.2	0.3	3.0	0.2	2.7	0.2
iii. Public Enterprises	6.7	5.8	4.5	1.7	4.5	2.7	4.2	2.3
b. Private Sector	**88.7**	**92.7**	**90.7**	**96.9**	**87.1**	**96.8**	**87.5**	**97.3**
i. Private Enterprises	68.0	85.6	67.7	85.6	63.8	82.4	65.5	83.4
o/w Foreign	8.0	8.5	10.9	10.2	8.4	8.3	7.9	9.2
Indigeneous	60.0	77.0	56.7	75.4	55.4	74.1	57.6	74.2
ii. Households	18.7	6.6	20.6	9.6	20.8	8.5	19.5	7.9
iii. Others	2.0	0.6	2.5	1.8	2.5	5.9	2.5	6.0

Table 5: Liquidity Ratios

	Feb-17	Feb-18	Feb-19	Dec-19	Feb-20
Liquid Assets (Core) - (GH¢'million)	21,283.5	23,708.77	25,551.8	30,915.9	31,021.6
Liquid Assets (Broad) -(GH¢'million)	45,247.3	55,877.50	68,593.4	78,771.8	77,142.6
Liquid Assets to total deposits (Core)-%	40.0	39.58	35.6	37.0	37.3
Liquid Assets to total deposits (Broad)- %	85.0	93.29	95.4	94.4	92.8
Liquid assets to total assets (Core)- %	25.4	24.92	23.5	24.0	24.2
Liquid assets to total assets (Broad)- %	54.1	58.74	63.0	61.1	60.1

Table 6: Profitability Indicators (%)

	Feb-17	Feb-18	Feb-19	Feb-20
Gross Yield	3.7	3.3	2.8	3.1
Interest Payable	1.8	1.3	1.0	1.0
Spread	1.9	2.0	1.9	2.1
Asset Utilitisation	3.1	2.7	2.5	2.6
Interest Margin to Total Assets	1.4	1.3	1.3	1.4
Interest Margin to Gross income	43.4	47.8	53.1	55.2
Profitability Ratio	14.0	16.4	20.3	23.3
Return On Equity (%) after tax	19.6	19.0	20.1	25.5
Return On Assets (%) before tax	4.0	4.0	4.2	4.9

Table 7: DMBs' Income Statement Highlights

	Feb-17	Feb-18	Feb-19	Feb-20	Feb-18	Feb-19	Feb-20
	(GH ¢'million)				Y-on-y Growth (%)		
Interest Income	2,182.7	2,045.9	2,179.4	2,659.2	(6.3)	6.5	22.0
Interest Expenses	1045.80	826.98	741.75	849.75	(20.9)	(10.3)	14.6
Net Interest Income	**1,136.9**	**1,219.0**	**1,437.7**	**1,809.4**	**7.2**	**17.9**	**25.9**
Fees and Commissions (Net)	275.6	321.9	323.3	382.8	16.8	0.4	18.4
Other Income	161.2	184.3	203.0	234.7	14.3	10.2	15.6
Operating Income	1,573.7	1,725.2	1,964.0	2,426.9	9.6	13.8	23.6
Operating Expenses	848.29	921.03	991.65	1175.94	8.6	7.7	18.6
Staff Cost (deduct)	435.91	483.54	545.69	645.37	10.9	12.9	18.3
Other operating Expenses	412.38	437.49	445.96	530.58	6.1	1.9	19.0
Net Operating Income	**725.4**	**804.1**	**972.4**	**1,250.9**	**10.9**	**20.9**	**28.6**
Total Provision (Loan losses, Depreciation & others)	184.26	206.28	210.90	224.66	11.9	2.2	6.5
Income Before Tax	**541.2**	**597.8**	**761.5**	**1,026.3**	**10.5**	**27.4**	**34.8**
Tax	174.48	179.75	211.80	263.50	3.0	17.8	24.4
Net Income	**366.7**	**418.1**	**549.7**	**762.8**	**14.0**	**31.5**	**38.8**
Gross Income	2,619.5	2,552.1	2,705.8	3,276.6	(2.6)	6.0	21.1

Table 8: Developments in Offshore Balances

	Feb-17	Feb-18	Feb-19	Dec-19	Feb-20
Offshore balances as % to Networth	67.4	59.0	53.7	55.3	50.5
Annual Growth in Offshore balances (%)	72.3	2.5	7.5	19.2	7.7
Annual Growth in Nostro Balances (%)	30.7	16.9	-31.2	61.4	40.0
Annual Growth in Placement (%)	173.4	-14.0	67.9	-14.3	-12.9