

BANK OF GHANA



**TRANSCRIPT OF MPC PRESS BRIEFING HELD ON JULY 19, 2019 IN THE MPC
CONFERENCE ROOM, BANK OF GHANA, AFTER THE 89TH MPC MEETINGS**

PUBLIC



**TRANSCRIPT OF THE 89TH MPC PRESS BRIEFING
HELD ON FRIDAY, JULY 19, 2019**

Following the Monetary Policy Committee (MPC) press briefing on Friday, July 19, 2019 by the Governor, who is also the Chairman of the MPC, the Press sought clarifications on a number of issues. Below is an edited transcript of questions by the Press and responses by the Governor.

Questioner: *If you look at your reserves, you would see some little pressure on the Ghana cedi, and if you compare the year-to-date depreciation, comparing this period to last year, it is a little bit higher than what we have recorded. Are we seeing some re-emergence of pressure on the cedi? Just over the last three days, some correction is taking place, so maybe we should not be worried, should we?*

Governor: It is a fact that the depreciation of the cedi this year, as of the end of June, was higher than last year. We all know that in February we had seen some kind of slippage of the cedi, in very significant proportions. Since then, the cedi has corrected somewhat but not enough to compensate entirely for that slippage and therefore statistically comparing the two half year periods, you would see that the cedi has been weaker in 2019 relative to 2018. I think we need to wait and see what the end-year comparisons would look like. The most important issue for me is that, we did not think that the movement in the cedi in February reflected the underlying fundamentals but rather driven mainly by sentiments. Therefore, it is important to distinguish the drivers of exchange rate movements and not necessarily assume that once a higher depreciation occurs, the situation is necessarily worse compared to what we had seen in 2018.

Questioner: *With respect to the policy rate cut and even maintenance, are we experiencing the pass-through effects on the private sector, and for the ordinary business person? I am asking this because rates are still moderately high. Is the market responding enough to what has happened in the past six months in terms of the policy rate?*

Governor: I think to some extent yes, the market is responding to the policy rate cuts. If you look at the Ghana Reference Rate, which is really the base rate for all banks in Ghana, just by the statistical relationship with the policy rate, you do see the movements. I also know that it appears the lending rate, broadly in the non-bank financial institution segment, has trended downwards since the clean-up processes started. This is because the problem with the high lending rates partly emanates from those small institutions that were bidding for deposits and driving lending rates up. With the clean-up, we have seen some softening of lending rates in that segment of the market.

Questioner: *You talked about data supporting confidence in the banking sector and said it has indeed picked up, but in a year or more than a year after these reforms, what about, in the economic scope, the real sector, the real people? Do you think that the sector is better off, and those who were affected are better off today? Recently a woman in charge of an Autism school who saved her money with one of these savings and loans companies was complaining that she had to close the school down because she cannot retrieve the money, and there are still several people complaining that they have been affected too.*



Governor: Confidence in the banking sector has significantly improved. I am not surprised that the example you gave is of a customer of a savings and loans company and as you know, they are waiting patiently for their part of this clean-up exercise to commence. I hope that we would get to that very quickly, but broadly, we see that confidence has improved significantly, which has real implications. The confidence we are seeing is from depositors, representing people who need their financial resources to live their lives, pay school fees, buy food, and do the sort of things that we all spend monies on to keep body and soul together. Therefore, the clean-up process has real life implications and by protecting more than 1.5 million depositors, in that context, you should be the judge of the impact on people.

Questioner: *What transaction accounted for the rise in the public debt stock from GH¢198 billion to GH¢200 billion from April to May?*

Governor: The public debt has edged up slightly within the short period between April and May. If you look at derivation of the nominal total debt stock, part of it reflects exchange rate movements during the period. Therefore, valuation also plays an important role in changes in the nominal debt stock because of the dollar-denominated external debt component.

Questioner: *Our debt stock has risen to GH¢200 billion. Is this sustainable going forward?*

Governor: Our assessment is that Ghana's debt stock is sustainable, but that assessment is contingent on very high rates of growth as well as some assumptions about interest rates and exchange rates. However, I do not think we should shy away from the view that there are vulnerabilities, and this really is what the discussions should focus on. If you have quite a bit of external debt stock, together with significant non-resident holdings of your debt, you are vulnerable to movements in exchange rates. So the discussion should move from the question of sustainability to an assessment of how vulnerable we are to shifts in investor sentiments that can really influence the exchange rate and by implication, the economy as a whole.

Questioner: *There are stories making rounds that the GAT arrangement has failed. How true or untrue is this? If not true, where are we in the process of raising the GAT money?*

Governor: I know the Government has provided money to GAT to pay up for the capital for the banks classified as GAT banks. As to whether that means anything else, I think that GAT is there to play other roles as well. GAT is supposed to help transform these banks, review their governance structures and re-examine their business strategies. So there are other things that GAT was set up to do other than raising resources from the capital market.

Questioner: *You were talking about the fiscal deficit target being missed slightly. I know deficit often occurs when the expenditure exceeds revenue. You explained that this was not the case for the fiscal deficit target that we missed; it was largely due to the fact that there was a shortage in expected revenue. Often when such things occur you would rather lower your expenditure or increase your income or revenue so how did this really occur?*



Governor: I am not quite sure of what you are driving at, because yes, we are saying that we saw revenue underperformance relative to the targets, which had been the major source of concern on the fiscal outturn. The issue is that past corrective measures have been to compensate the revenue shortfalls with expenditure reduction in order to stay within the budgetary ceiling. As said, we are seeing an increasing pace of spending and therefore you do not see the same amount of compensating reduction in expenditure that occurred for instance in 2018 compared to what we are seeing in 2019. That, in a way gives you a sense of the qualitative change in the fiscal stance from a more consolidated position to a less consolidated situation in 2019.

Questioner: Financial stocks have not performed quite well this year and you largely attribute that to the sort of reforms we have seen in the banking industry. We have seen microfinance as well, and we are expecting to see some reforms happen in the savings and loans sector too. How is this largely going to impact on the performance of the stocks?

Governor: On the financial stocks non-performing, I think that was the assessment in 2018, during the reform exercise. I believe that will change as we begin to see banks perform very strongly, and therefore in the medium-term, that should positively affect the financial stocks on the Ghana Stock Exchange.

Questioner: You said interest rate is rising and we all expect that inflation too will go up in the subsequent month because of the rise in utility prices. We were expecting that the policy rate could be hiked by 50 or 100 basis points. Can you give further clarifications to that effect?

Governor: Remember that we kept the policy rate unchanged. It is important that you read some of the materials that we had put out there. We had said that inflation remained within our target range, and it has been there for more than 15 months or so. It is important to note that, yes, from our projection, per the models that we have in the Bank; we see some elevated profile in terms of the headline inflation towards the end of the year. However, it would not fundamentally shift inflation from the medium-term target band, and this is why we had the courage to leave the policy rate where it is. If we had seen any major shift, which would have threatened the medium-term target, obviously we would have taken a different decision.

Questioner: We were expecting almost like US\$1.1 billion from donors to support our budget for 2019. I just want to know how much has come in so far.

Governor: I do not think that there is a donor support of that value. Most of it is sovereign bond money.

Questioner: You talked about vulnerabilities which we need to assess and as mentioned by you, one of them is the fact that we have many foreigners holding some of our bonds. Was it part of your consideration in choosing to maintain the policy rate, and I am referring to you saying that if you had reduced it given some conditions, some of these foreigners would want to move out their capital?



Governor: I am not sure you want me to repeat what I said on Ghana's vulnerabilities. The debt, in our view, is sustainable because of the assumptions on growth, interest rates and exchange rates. When we look at the configuration of Ghana's debt relative to the growth assumptions, we think that it is sustainable. At the same time, we recognise that we are vulnerable, vulnerable because the foreign exchange component of the debt is significant, both the external component of the debt and the non-resident holdings of our debt are significant. That is where the vulnerability comes in. And yes, in taking the decision on where to place the policy rate, you have to be cognizant of some of these flows. This is in response to the question about whether this was a consideration in the decision on where we put the policy rate. Fortunately, we are going through a period where the monetary policy stance in advanced economies is on the accommodating side and the forward guidance that we have seen is for a reduction in Fed fund rates. That gives some space to keep policy interest rates in the emerging markets either where they are, or in line with what is going on with the rest of the world. The incentives in that sense remains well preserved as far as emerging markets are concerned.

Questioner: On the banking reforms, we know you have talked about the fact that very soon we would see some actions in the savings and loans sector. There are people who say, there are certain savings and loan companies facing liquidity challenges but they have not collapsed. The suggestion is that, is there a possibility that you can save some of them from collapsing, because as we speak now, they are not insolvent but they may just be having some liquidity crises which may have been impacted by some of the collapse we saw in the banking sector. Is there a possibility?

Governor: I was hoping not to speak too much on the savings and loans issue, but we are ready. As you know, these things are costly and somebody has to pay for it, and as we have said in the past, as soon as the resources become available, we would get to work on what we need to do. We are still trying to mobilise the resources that would be required to undertake the clean-up of that sector. We are always very careful in making decisions on license revocations. Without clear data, which suggest that an institution is insolvent, the Bank of Ghana does not act. We do not revoke licenses on the bases of liquidity shortages, so let us be very clear in our assessment. No institution, which is solvent and liquid, has had its license revoked. We will start looking at that sector and decisions will be based on whether these are solvent institutions that can be effectively run over the medium term.

Questioner: On the capital adequacy ratio, I noticed that we started the year very well, above 20 percent, but now it is around 19 percent. What do you attribute to this downward trend?

Governor: The capital adequacy ratio declining from 20 to 19 percent, I am sure you know how it is calculated. Some of these marginal movements would happen from month to month. It does not necessarily mean some negative development.

Questioner: On the issue of foreign investor holdings in our bond market, the Ministry of Finance says that they want to introduce a cap on the amount of holdings that foreign investors can have and they are looking at either placing a normal cap or matching it to our reserves. From the monetary perspective, what would you advise, looking at the circumstance we find ourselves?



Governor: We were part of the team, together with the Ministry, that deliberated on the need to manage the country's vulnerability by trying to set a cap on the proportion of domestic bonds to allow non-resident investors to hold and the various indicators for gauging the level. Setting investor holdings relative to our reserves is a good measure but there are other measures also that we use to assess vulnerability.

Questioner: There is this story about ECOWAS agreeing to start implementing the ECO on January 1 next year. You are in there so we would like to know the decisions that have been made so far.

Governor: You know this is something that we have been trying to achieve over the last 20 years on the understanding that it is important that member countries meet the convergence criteria and this has been the difficulty. I believe that the last communiqué, which came from Abuja bordered on the fact that the authorities had agreed that member countries that meet the convergence criteria by 2020 can begin if they qualify and want to. In practical terms, if two small countries for example meet the criteria, what would that common currency do? These are very practical issues. We hope that if we see a critical mass of countries, of course countries with significant weight in the GDP for example, that meet the criteria and are able to join, then you can see that you would have a viable common currency arrangement. Therefore, I think it is too early to draw any conclusions.

Questioner: How much and in which tenures of the local bonds did you buy back after the Eurobond?

Governor: We got the US\$2.6 billion out of the US\$3 billion or so; you are looking at about US\$400 million that was used for the buy-back.

Questioner: You said the pace of fiscal consolidation has slowed, mainly reflecting gaps in revenues and then a threat to stability. The last time we spoke on this, you said you have some comfort. Has the comfort change?

Governor: I thought the tone of the monetary policy press release should give you a sense of my level of comfort. You can be the judge of that.

Questioner: In February, a radio station reported that over 10 staff of the central bank have been referred by the Ethics and Investigations Committee for various roles they played in the collapse of some seven banks. Please can you give us an update on what has happened so far after the investigation?

Governor: It has been two years now since all of this happened. Some of the staff in charge of the processes in the Bank at the time are on retirement. The investigative bodies have interviewed some of them but I really do not know the details of that. Internally, we have also identified some staff and they are going through the internal processes to find out whether anybody did anything wrongfully. I believe so far not much has come out of that process, but it is likely that within the next few months the process would conclude. We would then know whether any of our staff, currently in employment, played any role or is culpable. I am saying so because, there are some things that happened in our



89th BOG_MPC Press Conference_Q & A Session

banking system, including paying promotional fees, facilitation fees etc. with people soliciting for fees from public institutions that made deposits in banks. These are clear cases of receiving some monetary incentives, and if found culpable, it will be very easy to say that the person received inducement and therefore you can really go after that person. So far, staff in employment of the Bank have not yet been found culpable of anything like that.

END

PUBLIC