

BANK OF GHANA



**TRANSCRIPT OF THE 88TH MONETARY POLICY COMMITTEE (MPC) PRESS BRIEFING
HELD ON MAY 27, 2019 IN THE MPC CONFERENCE ROOM, BANK OF GHANA**

PUBLIC



**TRANSCRIPT OF THE MPC PRESS BRIEFING
HELD ON MONDAY, MAY 27, 2019**

Following MPC press briefing on Monday, May 27, 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:** When you go through the Economic Intelligence Unit (EIU) report that was released, they are still giving some signals about the cedi coming under some pressure later this year and even going forward. Do you think that the time has come to tweak the process or the policy measures in trying to stabilise the cedi in the short to medium term, and also you have lamented about these power contracts and all the rest putting some pressure on the exchange issues, what are you doing about that as well?*

Governor: We should expect to see a relatively stable currency over the short to medium-term. I had said this in the last two or three months and I continue to say that given the current level of international reserves, we are fairly well positioned in terms of buffers. Obviously going forward, we would have to manage some of the projected outflows for the rest of the year, especially payments associated with the ‘Take or Pay’ arrangements regarding the energy sector. In a sense, these are unplanned payments the Bank of Ghana has had to take on, so it becomes an additional source of pressure in the outlook but we anticipate that we would be able to effectively manage the impact.

***Questioner:** Now that we have taken out three billion Eurobond proceeds, I understand about a billion was supposed to be used for restructuring public debt. What exactly has been restructured with the one billion dollars from the Eurobond proceeds?*

Governor: I should tell you that there is quite a bit of progress on that, because out of the US\$3 billion contracted, three hundred million was used to pay off 2023 sovereign debt. We currently have about seven hundred million ring fenced into the sinking fund to be managed and used to reduce domestic debt. So operationally, we have room to pay off some of the domestic debts if government so wishes.

***Questioner:** We understand that almost a billion has been released from the Ministry of Finance for the clean-up of the microfinance sector and rural banks, I am just asking that all other things being equal, when are we going to start the clean-up for these particular areas?*

Governor: Yes, the Ministry has managed to open an escrow account, resources have been credited to the account, and we are in a better position to plan towards the cleaning up of the micro finance industry. However, we have to be careful about the process, so this is why we are spending some time to understand the population of micro finance institutions out there. Secondly, we need to assess whether we will attain our overall objective by concentrating on the micro-finance sector and leaving the other SDIs as they are. Or, we try to find the most vulnerable sections in the other SDIs, by that I mean the savings and loans and finance houses and see whether adding those to the micro finance intervention would make better sense, so this is really where we are. As you know, if you put both segments of the market together, the total bill for the clean-up exercise is close to seven billion, and the budgetary resources are not there to undertake an operation of that magnitude. We have just about one billion, which can take care of the micro finance institutions. Hence, the need to assess whether challenges in some SDIs, which are not micro finance institution but everybody knows they are in



distress, would be resolved or just concentrate on the micro finance sector. So, once we are very clear on which part of the other SDIs would be necessary to deal with at this stage, then we would start the work on that. Just give us a little space and we would communicate our decision shortly.

Questioner: *I think about a week ago or so we heard you talk about the recoveries the receivership process has been able to make and we heard you talk about GH¢731 million. We just want to know the breakdown, whether it is coming from the PWC or KPMG?*

Governor: You are right about the GH¢731 million. It is recoveries from both the PWC and the KPMG. About five hundred and twenty million came from PWC, and the rest came from the KPMG.

Questioner: *When it comes to some of the compliance process, we know the BoG has a requirement that banks are supposed to publish their end of year financials by end of the first quarter of the subsequent year and we realised that not all the banks complied with this particular directive. We want to know, has this come to your notice? If yes, what are you doing about these banks so that we do not have a recurrence of that process where banks are not publishing their financials or not keeping to the timeline.*

Governor: Regarding compliance with publication of annual accounts, all the banks, except the GAT banks have published their accounts. This is what I hear, so it is not true that the banks are not complying with that requirement. Even of the GAT banks, I am aware that Prudential and ADB have published their accounts, so we are quite confident given the government's commitment to ensure that the GAT banks succeed.

Questioner: *You mentioned that banks are well capitalised. However, we have five banks that are still undercapitalised waiting for the GAT money. Please, can you give us timelines on when we should expect or the Banks should expect the money to hit their accounts?*

Governor: If you remember, we had mentioned at this forum that given the government's sovereign guarantee, we regard GAT banks as banks that have met the minimum capital requirement. I cannot give you the exact timelines for when the money will hit their accounts; I think you should try to get that information from the GAT.

Questioner: *You have said several times that we need to reduce the amount of foreign portfolio investment in our cedi denominated bonds and government seems to be in agreement with that now. I want to know what is being done to attract more local portfolio investment into our cedi denominated bond issuances.*

Governor: I do not think that the discussion is about the crowding out of domestic investors, if it were about crowding out of domestic investors, then you would be right that once you reduce the external investment then you create room for domestic investors. There are many domestic investors in the money market, for instance, all the pension funds have investments in the medium-term instruments, especially the 5-year and 10-year term instruments.

Questioner: *You said the cedi depreciated cumulatively by 5.8 percent; I just want to know whether it is likely to threaten your inflation target for this year, the 8±2 percent? When you look at the EIU Report, they are projecting that the Cedi is going to be at GH¢6.50 by the year 2023? What is the Bank of Ghana doing to stem the Cedi's depreciation?*



Governor: On EIU's view about the exchange rate, I do not think that these projections are plausible, especially projecting exchange rate three years ahead, that is a very daring forecast and you find that such projections more often than not, do not turn out to be correct, because the horizon is too far out. But, I can tell you that the central bank's objective is to keep the Cedi as stable as we can and also keep inflation on target, this is what we are trying to do, and in trying to achieve our inflation target, exchange rate stability is very key. So the question about whether the 5.8 percent depreciation represents a challenge to our inflation outcome, yes I mean, if we had had a slower depreciation of three or four percent, it would have made our job, in terms of keeping inflation below our target easier. Now, we have to put in a little bit of effort to keep inflation within the target bands, and as you have observed, we have seen headline inflation creeping up over the last three months from 9.0 to 9.2, then to 9.3 and now 9.5 percent. In addition, we are saying that these slight upticks reflect the exchange rate issues that we had over the past three months. However, we do not think that this has led to dislodging of inflation expectations. As you know, within our inflation targeting frameworks, expectations on inflation matter, so for us, inflation expectations from the recent surveys we conducted remained well anchored and therefore the recent upturn in inflation will possibly ease. Otherwise, headline inflation would get out of the target band. So, that is where we are, we are still very much focused on delivering the inflation target for the year and in our view, such long-term projections of exchange rates are far-fetched, and so far as we are focused on achieving our inflation target, we do not think we will be anywhere near the EIU's projections.

Questioner: In your press release, you mentioned that the deficit was missed on account of lower than anticipated domestic revenue, which was not supported by expenditure rationalization. That sounds quiet familiar, and it looks like we are entering into an electioneering year soon, and then expenditure becomes quiet of a challenge, history has taught us. Do you see any threat to your monetary policy stance or your decisions because of expenditures that may be classified as overruns as we have seen on account of the months ahead of us?

Governor: You are right to point out these things, that over the last two years, each time we had seen some revenue difficulties, we had seen expenditures rationalised to manage the impact of that shortfall. But, fiscal efforts in this first quarter of 2019, in terms of managing the impact of the revenue shortfall has not been that strong, and your question is whether this represents a threat to the outlook? I would have said yes, but for the fact that we have received commitments at the very highest levels of government on fiscal discipline. In addition, we also have legislation, which limits the fiscal deficit to 5.0 percent in the law, so we are hoping that some of these rules would have an impact in terms of the risks associated with fiscal slippages going forward.

Questioner: If I heard you well, then it means that some energy sector debts were part of the causes of a drop in our reserves and also the budget deficit over the period that we are looking at? So I will like to know what is the cause of a new energy sector debt issued again after the issuance of the ESLA?

Governor: The question on the impact of the energy sector on the levels of reserves is legitimate. We are paying almost a US\$140 million a month for these energy related 'Take or Pay' arrangements, and this constitutes a major source of outflow on our cash flow with an impact on the level of reserves. You can see that we lost almost US\$600 million in the last few months, so these are some of the pressures we manage, almost on a day-to-day basis.



Questioner: *You have taken credit for cleaning up the banking sector, and describing it as resilient, yet I get a sense of frustration about non-performing loans on the books of these banks. What will be your advice for them to keep to their core mandate?*

Governor: As you know, most of the NPLs are part of the legacy issues that we have in the financial sector, also energy related. If you look at the core NPLs, may be they are around 9 percent, but the legacy NPLs are still a problem and we are trying to get the banks to write off those that are fully provisioned for and with the appropriate disclosures. Obviously going forward, much as the banks are lending, we want to ensure that they also enhance risk management practices to avert the accumulation of further non-performing loans.

Questioner: *Has your outfit or the central government issued a bond in March, concerning the banking sector reforms? If yes, how much is it and what is it supposed to be doing?*

Governor: If you look at the debt stock for the first quarter, you would see that there has been an increase in the debt stock of about five percent of GDP, representing the sovereign bond issue of US\$3 billion. In addition to that, you would find that there was a bond issued in March for the banking sector to cover the net gap of about GH¢1.4 billion for the last two banks, that is, the Premium bank and Heritage bank.

Questioner: *Governor, you have had high recommendations from the IMF for the reforms that you have done in the banking sector. It has been two years now since the reforms started, and you talked about prosecuting some of those officials found culpable to have breached corporate governance issues. Almost two years down the line, we are still talking about prosecuting them, the question is, do we really have evidence to prosecute them? If we do, should that really take two years to start the prosecutions?*

Governor: As you rightly said, we have been at this for nearly two years and the Bank of Ghana does not prosecute. I am sure you are aware of that, so in doing their work, the receivers have tried to follow up on what they call the civil issues, those that they can go to court and try to recover assets that have been lost from the directors and shareholders, and also from customers who owe these banks. The processes have not been straightforward; there are all kinds of difficulties, in terms of adjournments and delays, and all of that. This is why we had suggested that maybe if we had courts that designated solely to deal with such banking issues, we would have probably seen faster recovery of some of these resources. But, again the prosecutions are not the preserve of the receivers and the processes are going through the appropriate state agencies. I am aware that the EOCO, SIT and all other prosecuting agencies are doing their work and some of these dockets have been sent to the Attorney Generals' Department. The processes are a little slow, but gradually we will get there.

Questioner: *Your call for special courts and judges to sit on cases coming from the clean-up. Some industry practitioners are asking why you are lamenting, go ahead and talk to the Chief Justice to get the court in place. Have you taken any step?*

Governor: We have raised these issues directly with the Chief Justice and have had discussions with her on that matter.

END