

BANK OF GHANA



**TRANSCRIPT OF MPC PRESS BRIEFING HELD ON NOVEMBER 25, 2019 IN THE MPC
CONFERENCE ROOM, BANK OF GHANA, AFTER THE 91ST MPC MEETINGS**

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**TRANSCRIPT OF THE MPC PRESS BRIEFING HELD ON
MONDAY, NOVEMBER 25, 2019**

Following the Monetary Policy Committee (MPC) press briefing on Monday, November 25, 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: *Let me express my heartfelt condolence to you on the loss of your dad, Mr. Atta Joseph Addison. Over the years, I have observed that we have been recording trade surpluses, and this time we recorded US\$1.68 billion trade surplus. However, most of the time, this has not reflected in our current accounts and we have observed that we have huge domestic assets. For example, I know that Ghana is now the leading producer of gold and second in cocoa production. Is there a plan to convert this domestic asset into reserves so that when there is an outflow of investors, normally at the beginning of political cycles, we do not have swings in our foreign reserves?*

Governor: It is a pertinent observation that we have been recording trade surpluses for three consecutive years, and that the current account is still recording a deficit in that sense. It is important to know that until three years ago even the trade account was in deficit. That is an improvement, which indicates that we have moved away from an environment of recording deficits on the trade account to surpluses and essentially, that is due to increased oil exports. Therefore, the question on translating this to current account surpluses really is about integration of the oil sector to the local economy, and our ability to participate in the provision of services that the oil industry requires. This will ensure that the domestic economy benefits directly from the oil sector. For instance, you will find that the oil rigs are offshore and the services provided, even the food taken on the rigs is sometimes imported. Therefore, until we reach that stage where Ghanaians are able to participate in that industry, we will continue to see a weaker performance on the current account. That really explains that issue. But, you also raised an important question of converting some of our domestic assets to revenues and you classified gold as one of the domestic assets. This is something that the Bank of Ghana has started considering, and we are in discussions with some of the gold buying agencies, the local aggregators, with the plan to buy some of the gold locally and have it refined to enhance the Bank's foreign exchange reserves. That is an initiative that the Bank has already started and we will evaluate how effective that would be.

Questioner: *The Governors of the Bank of Ghana have always spoken about building up their reserves for a 'rainy day.' Do you think that looking at what has happened for the past few months you may have to revise the 'rainy day' approach to intervene? Looking at your data, the cedi depreciated by 10.37% against the US dollar compared to 7.81% for the same period last year, we have seen the rates depreciate faster than we thought, and we are getting into the Christmas festivity. Do you think that you might want to review that 'rainy day' strategy and up your interventions to try and stabilise things a little bit or you will still be waiting for the 'rainy day' which might be the first quarter of next year when the pressure is up especially in respect of the Ghana Cedi?*

Governor: I hope you have seen the development on the global economy and the way emerging market currencies have moved during the third quarter of the year. You just have to go and look at the data on what is happening to local currencies in Turkey, Zambia, South Africa, and some of the Latin America



countries. There has been a lot of pressure on the currencies of emerging markets and Ghana's currency has been relatively stable because of the work Bank of Ghana has done over the last quarter of the year. We probably would have built more reserves than we have currently built were it not for the fact that we have been in the market in the third quarter of the year to moderate the pace of the depreciation of the currency.

***Questioner:** Can we get the full details of the cost of the financial sector cleanup, in terms of your expenditure? We have seen data about the Finance Minister saying that about GH¢16 billion has been spent and you have given some detail in your economic data. People are still complaining that they cannot get access to their funds. Is it because these are in bonds?*

Governor: On the issue of the cleanup of the financial sector, the cost details are in the public domain. The amount that has been issued in the form of bonds, GH¢14 billion I think was the last, but you want to add other costs, including costs from the receivership and cost the Bank of Ghana has incurred due to the bond issuance. Currently, the trouble we have has to do with the fact that depositors were paid in full in the case of the banks, but we have had to operate with payout caps for the SDIs and as you are aware, the cap is set at GH¢20,000 per account. This is really the reason behind the complaints that people are not getting access to their funds. It is not because they are not getting access to their accounts, but because there is a cap on payments limited to GH¢20,000. I should tell you that more than 95 percent of total deposits that have been covered are below this cap and more than 95 percent have had their deposits fully refunded to them. So there is just about 5 percent of these depositors holding very significant amounts of money who have been 'in a sense' caught under this cap, and those are the ones complaining that people are not getting access to their funds. At the end of the day, this depends on the amount of resources that the government can afford to pay upfront as well as what the receiver would be able to recover from the shareholders and directors. That is the job of the receiver and it is expected that by the end of the receivership process, the unpaid amounts would be taken care of by the proceeds that the receiver obtains. The recovery job of the receiver – pursuing loan defaulters and shareholders that have misdirected funds – is critical to meeting depositors' full payments and we must all give the receiver the necessary support to achieve that objective.

***Questioner:** On the bit about the SME lending, I don't know whether you still want to allow demand and supply to dictate when it comes to cost of credit or have you got to that point where you believe that there should be a deliberate regulatory intervention?*

Governor: On SME lending, as you heard, we have agreed to set aside 2 percent of the primary reserves of banks. Banks are keeping 10 percent of their deposits in reserves with the Bank of Ghana. We think we have reached a point where we can set aside 2 percent of those reserves but they will not be available to the bank to use anyhow. Rather if a bank is ready to identify a problem directed at SMEs, that bank would get access to 2 percent of those reserves with the central bank. I do not know how you characterize that, whether it is market oriented or direct intervention, but this is a deliberate effort by the central bank to support the SME lending.



Questioner: *I was very happy to hear that tourism arrivals were a key driver of economic growth. Has this been the case over the years or are we experiencing this because of the 'Year of Return' celebrations? Statistics from last year indicate that there have been many tourist arrivals in the country with castles receiving many visitors, a growth of 30,000 tourists above last year. Have we grown tourism to the point where it can actually drive economic growth?*

Governor: Yes, we have seen tourism arrivals increase. This is not the first time it has been a major source of activity in this country. I have been following data on tourism arrivals as far back as when I was Director of Research. We did a whole research on tourism arrivals in Ghana and its impact on hotel occupancy rate and all of that. I think this year, we are beginning to see higher numbers – up by 30,000 above and that adds up to keeping the economy as robust as can be, but I do not think we have reached our full potential yet. You just have to look at our coastlines. When you go to some francophone countries, what do they do with their coastline? That is where you see the tourists, hotels, restaurants, etc. We need to develop our tourism potentials even further.

Questioner: *The Bank of Ghana has published the extension of the deadline for recapitalisation of the Rural and Community Banks (RCBs) to 20th February, 2020 for them to pay up their operational fees like the commercial banks. What update can you share on this?*

Governor: The deadline for the capital requirement was extended somewhat, but as I said earlier on, we excluded the RCB's from this initial phase with the view that we would be working with the Association of Rural Banks and the Apex Bank to review that whole area of Rural and Community Banks and strengthen them going forward.

Questioner: *Is GCB the only bank allowed to operate the electronic mobile money?*

Governor: So far, GCB is the only commercial bank granted a license for electronic money under the new Payments and Services Act.

Questioner: *There are concerns about government walking a tightrope for 2020 and the fact that there is the likelihood of a fiscal slippage. Consistently for the past three years, the country has missed revenue targets. If you look at the Fiscal Responsibility Act, we cannot spend more than 5 percent of our revenue for a given year. For 2019, we started with a deficit target of 4.2 percent of GDP, in the mid-year budget, we increased it to 4.5 percent, we are starting 2020 with 4.7 percent, and so we have a margin of point 0.3 percent. There are concerns given the fact that it is an election year, and we have a revenue target of GH¢67 billion for 2020. My question is that, what are we doing to ensure that we do not run a deficit, which is higher than stated under the Fiscal Responsibility Act, especially the fact that 2020 is an election year?*

Governor: As a country, we do not have the track record of sticking to fiscal targets and that creates a bit of uncertainty. We usually get this cloud of uncertainty around election years and that the authorities are fairly committed this time around to ensure that that does not happen. We would need three or four more election years where we go through the cycle with the fiscal intact in order to gain credibility from investors about fiscal policy, so I understand the point that you are saying. I can only assure you



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that the authorities are committed to ensure that we go through this election cycle without that sort of spill over. At 4.7 percent of GDP, we are quite close to the 5 percent ceiling on the target, but that is the commitment and we expect that the fiscal authorities will stick to it. If you listened carefully to the statement of the Monetary Policy, we had said that given the time left to the end of this year, a lot of the effort would have to be on expenditure rationalization. It makes the work easier when you focus on identifying your priorities in terms of spending, because the revenue part of it is difficult to increase over a relatively short time. In 2020, expenditure profile would have to be re-examined to identify the important priorities to stay within the revenue inflows, and I know that this exercise has been done. Prior to the 2020 Budget, all the major stakeholders went for a retreat to do this type of reprioritisation and therefore I am confident that we would stick to the set targets.

***Questioner:** You have outlined some measures to boost credit to the private sector and the SMEs. When would these measures be rolled out?*

Governor: We expect that these measures would be almost immediately and it should make resources available. The estimate is around GH¢2 billion and hopefully that would make a difference if we directed that entire amount of resources towards SMEs.

***Questioner:** We were expecting some explanation as to why we started the press briefing a bit late. That does not usually happen so when it happens, we want to hear some explanations.*

Governor: We devoted quite a bit of time on the lending issue on SMEs, quite apart from the Monetary Policy decision on positioning the policy rates. We had to go into a whole session on credit and that obviously requires a more diligent review process before it goes out to the public, so that accounts for the late start today and we apologise for that. We will not keep you here waiting next time.

***Questioner:** I would like to find out about the electronic money payments that GCB is being licensed to do. Is it moving us close to bitcoin?*

Governor: The electronic money payment by GCB is not moving to crypto currency bitcoin. It is just electronic money backed by currency, so GCB cannot create money; it can only have an electronic representation of the Cedis that Bank of Ghana puts into circulation, so it is not crypto.

***Questioner:** You announced that you were going to start forward trading in the forex market from the beginning of October. I would like to know how it has fared.*

Governor: The concept is very clear that we are in an environment where in anticipation of future payments, businesses would rather go to the market now and buy foreign exchange because they have some future payments in foreign exchange. That puts a lot of pressure on the spot market for the currency, so really the forward market is to cater for those future requirements and remove the pressure from the spot market. This is the idea and it seems to be working because there is quite a bit of interest in that market. We are seeing many bids coming in; we are looking at three or four weeks and we are



extending the profile of the duration of the quoted bids in that market. It has also helped lift the pressure off the spot market and that probably contributed to some of the stability that we have seen.

Questioner: There is a concern about forex trading institutions, which mostly operate online and have been doing business with people. Recently when I checked on your website, a number of them are not listed there as licensed forex traders in the country, yet they do businesses with people both here and outside. Some of them that are not based in Ghana, yet they do business with people here and at the end of the day, you begin to hear people cry that their monies have been taken away and so on. Has this come to your notice? Are there any measures to check those fake or unlicensed forex institutions?

Governor: Bank of Ghana has been on top of this issue of online trading in foreign currency. We have issued several notices and our Financial Stability Department has been following up on those that have come to our attention. The best that we can do under the circumstances is to continue to warn the public. I will be surprised if after all that we have gone through as a country, people would still deal with unauthorized dealers of foreign exchange and even unauthorised schemes for that matter. That will really surprise me, but we will do our best to follow up and give notices to the public when we get information about such operations and I think we have been effective so far in doing that.

Questioner: For October and November, we are expecting US\$100 million to be pumped into the forex market. So far how much has been pumped into the FX market?

Governor: I think you are referring to the cocoa loan that was supposed to come in this last quarter of the year. The Bank has received two tranches of that cocoa loan so far, maybe around US\$700 million or almost a billion of the cocoa loan has already come in.

Questioner: When you look at our debt to GDP ratio, it is now 60.3 percent to GDP but the IMF is projecting that we are going to end the year at 63 percent to GDP. Is that what is going to happen?

Governor: As you know, there are many assumptions behind these types of projections – assumptions on interest rates, assumptions on the exchange rates, fiscal performance over the period and size of the primary surplus, etc. – all of these factors feed into the final debt GDP projection. We would however stick to our 60 percent of GDP projection.

Questioner: Can you give us update on the recovery rate of the receiver?

Governor: I hear we have recovered over GH¢1 billion to date. Obviously, there is still more work to be done because the receiver has a loan portfolio of over GH¢10 billion. If only about GH¢1 billion has been recovered, then there is more than GH¢9 billion out there to go after. Apart from the loan portfolio, the receiver also has other assets to go after, and then we would be able to meet depositor payments that fall due.

Questioner: When will the recently launched Deposit Insurance Scheme going to cover mobile money operators? Will the same insurance scheme be extended to the mobile money operators?



Governor: The Ghana Deposit Protection Corporation already covers MoMo deposits, so all the MoMo accounts are covered under the current insurance arrangements.

Questioner: The off-budget or off-the-balance sheet expenditure – I am talking about the billions that we were supposed to spend to save the depositors funds and the banking sector cleanup. How do we couch it or capture it in the scheme of things, given that if the IMF's rules were to be applied that is really going to blow our deficits beyond the roof? Help me with some education here.

Governor: Some of these decisions were taken based on analytical work done. First, under the IMF programme, we are assessing fiscal performance. Therefore, the question is whether you want to make that fiscal assessment including financial sector bailout or energy sector bailout. This was the discussion. We had argued that, we want to assess the fiscal excluding these factors, because they are legacy issues that the government, more or less was saddled with. In assessing fiscal performance, you do not want to add legacy issues. However, these financial sector and energy sector issues are real, and they are not short-term. They are becoming more permanent so we are looking at it more holistically because they are not going to go away overnight. In setting fiscal policy, one has to take note of such permanent problems in areas that the country more or less faces, so yes, that was a temporary decision to have a benchmark for assessing fiscal performance.

Questioner: You said earlier on that the monetary stance was sufficient and on the back of that, inflation is still really going to try to redeem the target. How do we get that extra US\$1 billion that you anticipate to boost your reserves? Where is it coming from?

Governor: I think it is also in essence a question on the fiscal policy stance. The question is a critical one because we are saying that, so far, the stance is appropriate because the deficit ratios that we are seeing of around 4 percent and the monetary policy rate of 16 percent are giving us inflation close to our medium-term target and robust growth. In addition, we are accumulating reserves and that is what makes the policy stance appropriate. Assuming we had an expansionary fiscal stance on the other hand, higher than 5 percent deficit, alongside an interest rate that was less than 16 percent, we would be losing reserves, so all these variables are interrelated. This is why we are saying that we have an appropriate policy stance, which is delivering sustainable growth with inflation within the medium-term target, and the country is accumulating reserves.

Questioner: You mentioned that you are going to scrutinize the compensation packages of CEOs and Boards. How are you going to do it? Will it be based on the size of the bank or the income of the bank?

Governor: As you can see, this is a recent decision. If you look at the cost of operations of the banks, you would see where the inefficiencies are coming from. It is about time that we had a conversation with the banks to ensure that chief executives that are overseeing high non-performing loans are not being compensated in excess of some of the results that they are achieving, just to bring some equity into the system. This is very early days yet but it is an idea that we have thrown out. As part of our processes, we have a meeting with the Ghana Association of Bankers after every MPC and I believe in



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the meeting that we would have on Wednesday, we would go through the details of all of these with the stakeholders.

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