

BANK OF GHANA



**TRANSCRIPT OF MPC PRESS BRIEFING HELD ON SEPTEMBER 20, 2019 IN THE MPC
CONFERENCE ROOM, BANK OF GHANA, AFTER THE 90TH MPC MEETINGS**

PUBLIC



**TRANSCRIPT OF THE 90TH MPC PRESS BRIEFING
HELD ON FRIDAY, SEPTEMBER 20, 2019**

Following the Monetary Policy Committee (MPC) press briefing on Friday, September 20, 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: *The rebasing of the CPI has brought inflation down to 7.8%. Is that affecting the Bank of Ghana's medium-term target for inflation? Are you adjusting your target because of the effects of the rebasing?*

Governor: This is an important question. We were all quite surprised with the new rate of inflation of 7.8%, which came about because of the rebasing and the new Ghana Living Standards survey. So, we tried to assess what that means in terms of the 8% medium-term target for inflation. The new inflation number of 7.8% means we are slightly below the medium-term target and therefore, this maybe the appropriate time for us to review the inflation target towards one that is more appropriate for a country like Ghana. I have said this before at the previous MPC press briefings that when your trading partners' inflation is below 5% and you have 8% inflation, you are not competitive. So, we must aim to drive inflation closer to the inflation rates of our trading partners. If you agree with this argument, then we should be looking at setting a lower medium-term target for inflation. Whether it should be 5% or 6% is where the debate will be, but I expect that by the end of this medium-term period, we would probably have to reset the target for inflation lower.

Questioner: *With respect to the five banks that were supposed to be given GAT funding how many of these banks are now adequately capitalised and, what is Bank of Ghana (BoG) doing about the ones that have failed to recapitalise nine months beyond the deadline? There have been complaints that the playing field is not level.*

Governor: I have given this explanation several times over that the banks earmarked for GAT funds were banks the government had guaranteed. This was the only reason why their licences were not revoked because the government had more or less provided the necessary guarantees to support them through the difficulties. Out of the five banks, two are state-owned banks – ADB Bank and NIB. So far as I know, the recapitalisation of Prudential, UMB, OmniBsic and ADB has been completed. The only sticky point is the case of NIB where the capital requirement appears to be larger than originally envisaged. So, obviously NIB is a bank that we need to do some more work on but remember it is a state bank so the considerations are very different.

Questioner: *Has the merger between First National Bank (FNB) and Ghana Home Loans (GHL) been completed? I ask this because as of the middle of the year, GHL was still operating its accounts as an independent entity?*



Governor: The merger between FNB and GHL has also been completed. There are no issues on any of those banks anymore.

Questioner: *Any time you have the opportunity to engage the public and the banks you talk about the clean-up of the banking sector being completed? Looking at your data, are you worried about the rate of response from the commercial banks in terms of credit growth, and do you think that you may have to do more to stimulate the growth of credit to private businesses because when I engage some of the banks as well they think that in terms of regulations things are more tougher than before so in whatever that they do they have to watch their backs, talking about IFRS 9 and all those prudential regulatory requirements, so instead of an environment that will stimulate some innovation and more growth of the loan books, they are being so cautious and that is impacting on lending. Do you think that something has to change to ensure that that growth that you are looking forward to is realised?*

Governor: Yes, the banking sector clean-up has been completed, to the extent that the problem institutions in the banking sector, the savings and loans and finance house segments, and the microfinance sectors have been taken out. We think that that should end the exercise. We have also said that we will work with the Apex Bank to see how best to deal with some of the problem institutions among the rural and community banks. So, largely the reforms over the last two years have been very successful and most of the weak institutions which were driving up operational costs and making lending rates high are currently out of the system. If you take the microfinance segment for example, microfinance institutions were the ones offering 31%, 32% rates to attract deposits because of their inefficiencies. I understand that after the clean-up, the deposit rates in that segment have collapsed from about 30% to around 15%, which is what we expect because the customers who patronise that segment of the market are more interested in well-managed and stable institutions rather than chasing yield. We expect the reduction in deposit rates in that segment to have a knock-on effect on all interest rates, including lending rates in the financial sector. This is where we are pushing the banks to go. Last week, we met with each of the banks to discuss the impact of all of these developments on their operations and we are quite confident that the lending rates will come down. In fact, if you look at today's MPC press release, lending rates are being reported to have declined substantially to around 23-24% and we expect that credit growth would pick up significantly. This is the sense we get from our meetings with the banks. Yes, as you rightly mentioned, some of them are concerned about IFRS 9 and expected losses and therefore have to be careful about lending, but I don't think that should necessarily lead to lower lending by the banks as you put it. We are having a risk-weighted assets approach in place where you ask banks to provide more capital buffers when they assume higher risks so yes, they have to watch the risks associated with the lending they undertake but that should not necessarily lead to lower credit growth.

Questioner: *On the Ghana Cedi, I have seen some fair stability on the market but in the past, there have been some serious volatilities. You've been on the market frequently than previously. Do you think the approach should change because sometimes I have the feeling that you want the Cedi to appreciate a little bit? When you come in things stabilise strongly. The Economic Intelligence Unit is forecasting some sharp depreciation going forward. You may downplay it but don't you think that*



investors might price that forecasting into their engagements with you when they buy bonds, and so on? So, the two quick questions are, should you intervene quicker than before and are you worried about the EIU's report on the Cedi?

Governor: I believe your concern with the Cedi stability is the Bank of Ghana's role in the market. I keep reminding this meeting that the Bank of Ghana's focus is on inflation. This is really the objective for our monetary policy framework and therefore our activities in the foreign exchange market is not conducted with a view of setting a particular exchange rate. Having said that, we think that once the fundamentals are where they should be and once interest rates are appropriately positioned, we should then derive an exchange rate which we think is reasonable and competitive and this is the report that we have given today, that, in trade weighted terms, the real exchange rate is very consistent with the developments in our economic fundamentals. I have not seen the EIU's prediction but they are entitled to their own forecasts. We think that we have relatively strong buffers and at the end of the day, it depends on the buffers that you have. Normally in August/September, the central bank reserves would be at its lowest point, but this year, our reserves are fairly strong even before the expected cocoa loan of US\$1.3 billion inflows come in, so if anything at all, we are in a better position to deal with any adverse shocks to the exchange rate over the next quarter.

Questioner: *You continuously talk about the fact that we need specialised courts to deal with some of the fallouts from the clean-up of the banking sector. I would like to know if you have engaged the Chief Justice or any other relevant authority. If you have, what has been their feedback and when are we seeing these specialised courts?*

Governor: We have mentioned it several times that we have engaged the CJ and I cannot say whether special courts will be established for these cases, but the dialogue is still on.

Questioner: *Following the revocation of the licences of the savings and loans companies and the finance houses, there has been interest in looking at the implication of the fit and proper regulations or the directives on the people who were behind these institutions? Are you saying that given that some of the institutions they were supervising broke some of the laws or provisions of Act 930 they are unable to hold positions in the banking sector or the financial sector again? I just want to have a bit more clarity on them.*

Governor: I think the issue of fit and proper test is a good subject that you have flagged because we need to put up a list of shareholders and directors who accounted for all the malfeasance in our financial sector. Today, they are out there granting interviews and misinforming the public but we are still discussing how to deal with people who are not fit and proper in terms of Act 930.

Questioner: *Recent media reports indicate that the Bank of Ghana has come out about some regulation in respect of identification for third party deposit of money or withdrawals from banks. Can you throw more light on this especially regarding the use of national identification cards? Is the Bank in favour of the national identity cards?*



Governor: I am meeting with Professor Attafuah in the next two hours or so, and the subject is on this very matter and we are ready to request the banks to comply and accept the NIA card as a valid card for banking or financial transactions. I do not think that there are any big debates on that matter, so we would be sending that directive out. If it hasn't gone out already, it will be going out soon. The issue of third-party is related to the identity cards and for such third-party transactions this is a required procedure.

Questioner: My question is about the overexposure of domestic bonds to foreign investors. I understand you and the Ministry of Finance are working on a cap and I would like to know if you have arrived on an indicator for that.

Governor: The key thing to note is that the numbers have gone down significantly. We had started a year ago with almost 36% non-resident holdings of our domestic bonds. Today, this has dropped by almost 10% to 26-27%, so that vulnerability has reduced considerably over the last year.

Questioner: I would like to know if you have a clear strategy for checking local businesses that continue to trade in foreign currencies.

Governor: On the issue of dollarisation, we have been trying to prevent people from pricing in US dollars because of the negative impact on the economy and I think we are beginning to see some results. The whole of this week, most of the advertisements that I have seen in the national dailies are all in Cedis. Even the prices of houses are being quoted in Cedis now. We are beginning to see compliance with the regulations on pricing and as you are aware, we had a team that went out during the week to visit shops that were suspected of pricing in dollars to sensitise them against the practice. That should help all of us in terms of the performance of the economy broadly, and the exchange rate of the Cedi in particular.

Questioner: During the recent World Economic Forum in Cape Town, South Africa you were quoted as saying that inflation has continued to come down and our policy rate is going to follow such path so I was expecting a cut in the monetary policy rate but that didn't happen. Is it because of the recent hike in transportation fares, which of course, is likely to push up inflation? Is that why you decided to hold the policy rate at 16%?

Governor: I like this question on what I had said in Cape Town about the focus of our policy. The focus of our policy is on inflation and if inflation continues to go down, we should expect that the monetary policy rate would also go down so the question about why it did not go down is very relevant for this meeting. I think first, we've just seen the 7.8% new inflation number come in. We need to understand what all of that means; we need to look at the history and use the new basket to reconstruct the historical trends and be able to tell where we are in that trajectory. We have already been getting some sense of it but we want to be very sure of what the 7.8% means relative to the historical inflation trends. Secondly, I think we've been fairly open, that if we were in a stronger fiscal position we definitely would have gone down on the policy rate but under the circumstances where the fiscal situation is still uncertain, it is quite difficult to start lowering policy rate particularly



because the budget is very dependent on non-resident financing. Before you lower the policy rate, you want to be sure that that vulnerability has reduced. We don't want to lower the policy rate and then jeopardise financing for the budget, so those are some of the considerations for leaving the policy rate where it is.

Questioner: What could be our reserve position if we receive all the US\$1.3 billion syndicated loan?

Governor: Yes, we are getting US\$1.3 billion from cocoa. We are currently at US\$8.1 billion. All things being equal we should be getting to US\$9.4 billion and if there are other flows other than cocoa, maybe even higher, unless of course we have some energy payments which will also reduce the reserve levels but broadly you are looking at about US\$9 billion over the next quarter or so.

Questioner: Government loses close to GHC5.2 billion through tax exemptions. Is this likely to affect our fiscal consolidation process?

Governor: This is one of the areas where I know there has been a push for exemptions to be reduced so that its revenue impact on the budget will help improve the fiscal situation.

Questioner: You talk about business confidence in the banking sector and I guess it is limited to the banking sector alone and not the entire financial sector. From the little I see in the financial sector, confidence is low and people are not really interested in putting their monies in the finance houses, investment firms and all that. What do you see that we do not see, Sir?

Governor: I agree with you that confidence requires time. It is not something that you can gain overnight and we expect that overtime, confidence in the banking sector will become stronger. The reason why we say we see some improved confidence is relative. The development in the deposits of the banking sector is a reflection of what had happened in terms of deposit mobilisation by the banks. If you see increased deposits of the banking sector, that in itself indicates that people are putting more money in the banks and we expect that overtime, given the measures that have been taken for finance houses and savings and loans companies, we expect confidence in that segment to also improve.

Questioner: When does medium-term end especially with regards the inflation target band and who then will lead the charge for a newer one? What is the optimum? Can we go with 5 to 6%? If there are any timelines what do you propose or what should we expect the new band being like?

Governor: As you know, the medium-term macro framework is an exercise that is undertaken jointly between the Bank of Ghana and the Ministry of Finance so the team would have to relook the medium-term target that we have set; not only for inflation but for the budget deficit, reserve build-up and so on. These are all interrelated so we have to look at all our macro targets. This is really what this exercise will be. The concept of optimal inflation requires some empirical work to be able to say what the optimal inflation for Ghana is. I had simplified it by looking at the issue of export competitiveness and to compare our inflation to the inflation of our trade partners. That's one dimension of the problem in trying to set what the optimal inflation should be but, you also want to look at the issues about the trade-offs between inflation and growth and where the trade-offs are in a



sense minimised, so it is not a simple exercise. We would need a lot more technical input in undertaking that assignment.

Questioner: *Is there scope to have a media workshop primarily on these banking sector reforms and the intricacies of it all? There's a lot of push back and other voices saying a lot of things full of technicalities and the media sometimes, I perceive, get lost and we may end up carrying the wrong wind to sink our own ship. If there is that scope don't you think it would help all of us and bring us up to speed with everything so that we can better inform our readers and the populace well because this knowledge gap seems quite gaping?*

Governor: A media workshop is welcome. It is not new. I have participated in one organised by the Institute of Financial and Economic Journalists and explained a couple of concepts and we can easily re-organise and focus on the banking sector issues if need be so it is a good suggestion to look at the banking sector cases and maybe to look at it case by case. I will ask the Banking Supervision Department to do a case-by-case analysis of each of the banks that have been resolved and I hope the media will properly understand the issues. It is not about liquidity alone. The factors are many and you have read about them and written about them but maybe you need a refresher course on all of these issues, on all the management conflicts, corporate governance breaches and issues associated with insider dealings, falsification of accounts, the fraud and so on. The issues are many and they pretend as if nothing has happened and we cannot allow people to misinform others on why we are where we are today.

Questioner: *You said the Bank's main focus is inflation. I would like to know whether you are concerned about the rounding up of figures especially in price increases especially when it comes to the petroleum sector and the transportation sector. Increases are rounded up such that it makes the five pesewas and one pesewa useless in the system. This is because of the way increases are done without taking into consideration the existence of these currencies so they raise it to say 10 or 20 pesewas straight whether they could have done it by 15 pesewas or 17 pesewas. They neglect these currencies in the system. Are you concerned?*

Governor: This is a very good question because that is why we emphasise stability so that we can preserve value. When the Cedi was redenominated, we had hoped that we would be able to preserve value. At that time, the Ghana Cedi was the equivalent of the US dollar. This was in 2007 so fast forward to 2019 and we are now at GHC5.3 to the dollar so obviously the one pesewa has lost value. What you are seeing out there is a loss of value and that is why nobody wants to deal with the one pesewa. This is a very good way of explaining why keeping inflation low is important, and why stability is important – to preserve value. I don't blame those who are rounding up because it is a nuisance when you cannot use one pesewa to buy anything and this is really why they are rounding up. Let us keep the focus on the appropriate policies to maintain value. Remember the phrase “the value is the same”? The key word is value.

Questioner: *With respect to the choice of Ghana to host the African Continental Free Trade Area secretariat, what is going to be implication for our financial sector and trade and what preparations*



are the central bank making if there are going to pressures or opportunities to ensure that the country is ready to do so from the Bank of Ghana's perspective? Do you think that will necessitate the implementation of the Eco – the sub-regional currency in a way?

Governor: I think that we are very lucky to have the Secretariat located in Ghana. It would add to our bid to become the financial hub in the West African region. We already have a lot of the regional banks in Accra. We are already seeing some mobility of professionals between Nigerian banks in Ghana and their parent banks. That labour mobility which is required to make such trade arrangements successful is already taking place in the financial sector so we get Nigerian professionals coming in for a few years and then they go back. I think that is a useful thing. Similarly, it also helps in the preparation towards the future common currency. The key thing is the need to remain competitive to be able to participate in intra-African trade because if you have all the policies and you are not competitive, you are not going to be able to take advantage of the free trade.

Questioner: *You've said that the banking sector is more solid, liquid, profitable, and efficient. Are 23 banks the optimum or there are still some pending applications that you are considering?*

Governor: I think I've dealt with this question several times that we have a framework, an open and liberal financial sector, and if you meet the entry requirements including the minimum capital of GHC400 million we would license you. We are receiving new applications for payment service providers. This is where the interest is these days due to the new Payment Systems and Services Act.

Questioner: *On a lighter note, have you heard of the name "Consolidator-General? Do you know who it is referring to?*

Governor: Actually, I have heard the name "Blow man".

END