2020 ANNUAL DINNER OF THE

CHARTERED INSTITUTE OF BANKERS (GHANA)

ADDRESS BY

BY

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VENUE: ACCRA INTERNATIONAL CONFERENCE CENTRE

NOVEMBER 28, 2020

The President, Chartered Institute of Bankers (CIB),

Members of the Governing Council of CIB,

Chief Executive Officers of Banks,

Associates and Fellows of CIB,

Distinguished Guests,

Ladies and Gentlemen,

1. Good evening. It is a great pleasure to see everyone hale and hearty at this Dinner event as we climax this year's Bankers Week celebrations. Undoubtedly, 2020 has been an extraordinary and interesting year, characterised by widespread disruptions and heightened uncertainties emanating from the COVID-19 pandemic. Lockdowns, border closures, social distancing, and rotation of staff at work—the new normal—have become part of our vocabulary, and the wearing of facemasks as if we were in a masquerade party should remind us that these are not normal times. Four years ago I gave my premier address to this gathering and I recollect the mood at the time, and the anxiety that had gripped the banking community after we had revoked the licenses of two banks earlier in July that year. That anxiety was well founded as we revoked seven more licenses in the years that followed. Today we are almost complete in the reform of the banking sector and I believe there's not much apprehension or anxiety, so relax enjoy your desserts. You will not hear anything that will cause you indigestion.

2. Let me first commend the Chartered Institute of Bankers for continuing with the tradition of hosting the Annual Dinner event under these unusual circumstances. My brief remarks today will broadly focus on "***resilience in the midst of the COVID-19 pandemic, and outlook for the sector***".

3. Madam President, 2020 has been a difficult year. After three years of prudent management of the Ghanaian economy, we ended the year 2019 with significant consolidation of fiscal policy, a decline in the rate of inflation, robust build-up of international reserves of the central bank, and stability in the exchange rate.

4. Then come beginning of 2020; the Ghanaian economy was hit with an external shock, the Covid-19 Pandemic, which impacted negatively on global trade, commodity prices, tourism and international capital flows. Apart from the public health challenges associated with the Pandemic, it also brought in its wake unprecedented economic consequences with disruptions in global supply chains, and heightened uncertainty in global financial markets. The imposition of restrictions disrupted economic activity. The Pandemic led to general anxiety, volatile expectations, and unprecedented levels of uncertainty, all of which weighed heavily on public policy, at the centre of which is macroeconomic management.

5. Madam President, the Government was very swift in its response and His Excellency the President provided excellent leadership by rising up to the challenge that the Pandemic had brought to the economy. The Government decided to do "whatever it takes" to minimize the impact of the Pandemic on citizens including a stimulus package of over GHc11.2 billion to address the social and economic consequences. To complement the fiscal policy actions, the Bank of Ghana deployed its various tools, namely interest rate tool, macro-prudential policies, market liquidity support, and triggered its emergency financing clause to purchase a Government COVID-19 Bond. Specifically, the Bank of Ghana introduced the following regulatory and policy interventions:

- The Monetary Policy Rate was reduced by 150 basis points to 14.5 percent to complement fiscal policy and provide support to economic growth;

- The cash reserve requirement (CRR) ratio for banks was lowered from 10 to 8 percent to provide additional liquidity to Banks. This policy measure was expected to free up additional resources of about GHS2 billion for banks and SDIs to lend to critical sectors of the economy;

- The CRR for RCBs, S&Ls, Finance Houses was reduced from 8 to 6 percent; and from 10 to 8 percent for microfinance companies;

- The Capital Conservation Buffer was reduced by 1.5 percentage points to 11.5 percent and providing capital relief of about GHS1.1 billion for banks;

- The provisioning requirements for loans categories was reduced from 10 to 5 percent and which translates to about GHS115.3 million in capital relief to Banks;

- Restrictions were imposed on dividend and other capital distributions for the financial years 2019 & 2020 *to preserve liquidity and capital buffers*;

- The deadline for new capital requirement for SDIs (MFIs and RCBs) was extended to December *to provide temporary relief to SDIs, given current economic conditions*;

- The Bank of Ghana requested Banks to grant 3-12 months moratorium on principal payments on loans granted to customers in the worst pandemic-hit sectors;

- A reduction in mobile money charges and waiver of transaction fees on minimum transactions (GHS100) and increased wallet limits was agreed with the TELCOS *to promote electronic transactions as part of COVID protocols;*

- The combination of these measures translated into a relief of more than GH¢4.0 billion to the economy, and with multiplier effects strong enough to provide the necessary impulse required to contain threats of recession and support economic recovery efforts post COVID-19.

6. In addition, the Bank of Ghana, unlike other peer central banks, was able to utilize its policy space—gains from over three years of strong monetary policy reforms—by triggering the emergency clause of the BoG Act to allow the Bank purchase Government of Ghana COVID-19 relief bond (GH¢10 billion), in line with provisions of the BOG Act 2002 (Act 612), as amended Act 918. It should be known that over the last three years, the Bank had observed a strict zero financing of the budget in line with a Memorandum of Understanding between it and the Ministry of Finance as part of the IMF programme. This policy therefore represented a major policy shift reflecting the posture of doing "whatever it takes" to preserve lives and livelihoods and this helped in closing the widened financing gap of the budget arising from increased COVID-related spending as revenues dwindled.

7. Madam President, the banking industry deserves commendation for the positive response to the Bank's monetary policy actions and regulatory relief measures. Following the announcement of the measures, Banks have provided various reliefs to customers through reduction in lending rates, granted moratoria on loan repayments, restructured existing facilities, and advanced new loans to customers. Broadly, these actions have helped moderate the economic impact of COVID-19 on customers and minimised the potential disruptions in credit flows. There is no doubt that these responses have contributed significantly to the much faster pace of economic recovery than anticipated.

8. To safeguard financial stability, in the midst of the pandemic, the Bank, in consultation with the industry, provided guidance to ensure that reliefs such as repayment moratoria, and extended and restructured loans and advances to customers were transparent and standardised while recognising the prudential treatment that the BoG will apply to such reliefs in its assessment of credit and liquidity risks and capital ratios. Broadly, the Bank's COVID-19 policy interventions has positively influenced the banking sector and the economy.

9. At the last MPC meeting, we assessed the banking sector to be liquid, profitable, and well capitalised. The Financial Soundness Indicators are strong and Banking Sector Stability Index monitored by the Bank remains in high positive territories indicating the resilience of the sector. The recent BoG survey on the impact of the pandemic on Banks showed that while the Pandemic has increased the industry's cost of operations, Banks have not passed on the associated costs to consumers through higher interest margins. This is laudable.

10. The effect of the Pandemic also requires some supervisory and regulatory adjustments to keep pace with the new normal. During last year's Annual Dinner, I mentioned that the Bank would improve on the credit infrastructure to enhance credit allocation in support of growth.

Collateral Registry

11. Madam President, the Bank has improved operations of the Collateral Registry to enhance the credit infrastructure, established stronger data management systems, put structures in place to strengthen financial integrity and promoting financial inclusion. The Bank has rolled out an online payment module in May 2020 for users of the web-based system to reduce the challenges associated with the traditional mode of paying for Collateral Registry's services. This single action has provided convenience such that users can access the Registry's services through cashless payments, either mobile money or Visa/MasterCard. As at the end of October 2020, online payment for the Registry's services accounted for 76 percent of total pre-payments, for the 28,403 online searches recorded.

12. Indeed, the COVID-related restrictions did not deter banks and other lending institutions from registering their security interests in collaterals due to the online accessibility of the Registry's system. Cumulatively, the Collateral Registry recorded 80,172 security interests from January to October 2020. Of this, savings and loans companies accounted for the highest number of 54,493 security interest's registration, representing 68 percent of the total, followed by rural banks with 11,663 (14.6%) and banks with 8,473 (10.6%). The remaining registrations were by Microfinance companies, Micro-credit Companies and Finance Houses, among other lending institutions.

13. In terms of assets pledged by borrowers, the Collateral Registry recorded 168,707 assets as part of the security interests in the year to October 2020. Of the registered assets, cash collaterals numbered 53,859 (31.9%), followed by consumer/household assets of 30,617 (18.15%), inventories at 29,090 (17.24%), company assets at 16,304 (9.66%) and fixtures and fittings were 15,950 (9.45%).

Credit Reporting

14. To improve the credit environment further, the Credit Reporting Regulations, 2020 (LI. 2394) were enacted in March 2020 to complement the Credit Reporting Act 726. Among others, the Regulations provide clear sanctions for breaches such as non-submission of data and under-reporting as well as failure to conduct credit searches prior to granting credit. In addition, the Bank, together with various stakeholders, concluded the review process of the Borrowers and Lenders Bill, 2020, which Parliament has passed, and is currently awaiting Presidential assent. The Borrowers and Lenders Bill will seek to improve standards of disclosure of information on lending and borrowing and promote a consistent loan recovery and enforcement system by lenders.

Data Management Systems

15. The Bank has also introduced an Online Reporting and Analytics Surveillance System (ORASS) to replace the Electronic Financial Analysis Surveillance System (eFASS) and the Online Electronic Surveillance System (OOESS). Key aspects of the ORASS include the Regulatory Returns (for submitting prudential returns), Licensing Transactions (for licencing applications and other related requests for approvals), and Risk-Based Supervision modules (for examination purposes). The roll out of the project is currently ongoing alongside training programmes for reporting institutions. A regulatory returns module has been set up for parallel submissions until the end of 2020.

Maintaining Financial Integrity

16. Ladies and Gentlemen, you would recall that during the year, the EU listed Ghana among countries with strategic deficiencies in their AML/CFT regimes. This listing although does not lead to any sanctions or restrictions in trade relations, can have serious consequences to the financial sector, including a higher level of due diligence from correspondent banks on their Ghanaian respondent banks and the de-risking which could disengage us from the international financial system. We call upon the governing boards and management of banks to do their part and stay in compliance within the country's AML/CFT laws and regulations.

17. Accordingly, the Bank of Ghana has intensified surveillance of the financial system to identify potential systemic risks, market conduct breaches, and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) deficiencies. This will pave the way for prompt remedial actions aimed at improved resilience and public confidence. In light of this, the Bank has revised the AML/CFT Guidelines for the industry, introduced a sanction regime, increased sensitization and established a regulatory forum to boost correspondent banking relations and general health of the financial system.

18. The continued cyber security threat to the banking sector has become more critical with the advent of COVID and the switch to more technology based financial services delivery. The Bank has continued to monitor these developments and enforce standards that adequately protect consumers and promote public confidence. During the year, the Bank resolved several customer complaints, conducted onsite and offsite examination exercises to enforce guidelines on recourse mechanisms and transparency, increased financial literacy programs to help consumers navigate through the pandemic, and reviewed innovative products to ensure its compliance with market conduct standards. Currently, the Bank is preparing directives to regulate unclaimed balances and consumer protection requirements for digital financial services and products.

Payment System and Financial Technology

19. Madam President, COVID-19 has pushed the frontier towards financial technology and from observations, banks have already taken up the challenge to digitise financial services and product offerings. At the onset of the pandemic, the Bank introduced measures to enhance mobile money transactions and increased public education on mobile money and other electronic money fraud. Ghana's payment systems achieved another milestone with the launch of the universal QR code payment solution in March 2020. This strengthens the financial inclusion agenda and promotes the use of contactless payments, which is critical in the fight against the coronavirus. The harmonisation of QR codes on a national level has paved the way for Ghanaians to make payments to merchants from multiple funding sources such as mobile wallets, cards or bank accounts, on all platforms. In line with provisions in the Payment Systems and Services Act 2019 (Act 987), the Payment Systems Advisory Committee was established to advise the Bank on regulations, oversight, operational and technical issues of payment, as well as clearing and settlement systems. In May 2020, the Bank announced the establishment of the Fintech and Innovation Office responsible for financial technology and payment innovations. The Office is expected to drive the digitisation agenda of the Bank, and is responsible for licensing and oversight of dedicated electronic money issuers (mobile money operators), and payment service providers (PSPs), among others. Since the introduction of the Payment Systems and Services Act, 2019 (Act 987), which permits

Bank of Ghana to license and supervise FinTechs, we have seen significant interest from both local and international entities in securing Payment Service Provider licenses to operate in Ghana. The Bank has so far issued eight (8) payment service providers' licenses. This includes three (3) in the electronic money issuer category, four (4) in the Enhanced Payment Service provider category and one (1) in the Standard Payment Service Provider Category.

20. The latest data on digital transactions and payments, especially mobile money transactions and GhIPSS Instant Pay (GIP) reflects significant growth. Cumulatively from January to October 2020, number of mobile money transactions increased to 278 million, up from 188 million same time last year. In terms of values, total mobile money transactions more than doubled to GH¢58 billion, from GH¢28.4 billion last year. The GhIPSS Instant Pay (GIP) recorded exponential growth in both volumes and values as real time electronic transfers between banks increased significantly.

21. The Bank of Ghana recognises the key role that financial markets play in the effective transmission of monetary policy. Therefore, in the three-and-a-half years, the Bank has championed reforms in the repo markets resulting in the adoption and implementation of a Global Master Repurchase Master Agreement (GMRA) effective October 1, 2020. These reforms have led to the most improvement in Ghana's ranking in the ABSA Africa Financial Markets Index, climbing five places on the pillar for the

"Legality and enforceability of standard financial markets master agreements" in a single year. Data at the CSD indicates that repo activity under the GMRA is yet to pick up and banks continue to use collateral lending rather than repo under GMRA transactions. Considering the risk implications of collateral lending, I encourage you to patronise the repo under GMRA transactions.

22. The reforms in the financial markets are yielding the expected benefits to the securities market, with increased levels of bond settlements and transactions on the secondary market. At the end of October 2020, GH¢ 86.2 billion secondary bond market transactions was settled through the banks on the Central Securities Depository (CSD) platform. This represents a 54.7 percent growth over the GH¢55.7 billion bond market transactions settled for 2019. In addition, the reforms have broadly eliminated settlement delays and reduced its attendant systemic risks.

Macroeconomic environment and Outlook

23. Madam President, the prompt fiscal and monetary policy actions taken at the onset of the COVID-19 pandemic have helped prevent a deeper contraction of the economy. The latest high frequency indicators monitored by the Bank have gained some momentum and reflect a much faster pace of recovery in economic activity than expected due to the supportive policies, easing of COVID-restrictions, and strong liquidity flows to the economy. Inflation pressures from events preceding the partial lockdown of the economy in April 2020 are easing. Headline inflation is currently at 10.1 percent, almost at the upper band of the medium-term target and the latest forecast indicates a return to target by mid-2021.

24. The macro outlook is generally positive with supportive global conditions, easing domestic inflation, and improving growth prospects. The key risks are the evolution of the budget deficit and the financing needs to support budget implementation and the uncertainty surrounding the pandemic.

Banking Sector Outlook

25. Madam President, the COVID 19 pandemic presented a major test to the resilience and robustness of the banking sector. The Bank of Ghana has risen to the challenge with policy measures to protect the financial system and support the real economy as mentioned earlier. It is by providence that the financial sector clean-up was undertaken at the time that it took place as heading into the pandemic, Ghana had turned its banking system around and restored confidence in the sector. All the financial soundness indicators, measured in terms of earnings, liquidity, and capital adequacy showed significant improvement. We had put into place a framework to strengthen banks capital. The overall capital adequacy ratio for banks had increased to 20 percent well above the regulatory requirement. The Non-performing loans ratio had declined from 21.3 percent at the end of December 2017 to 15.3 percent. Liquidity in the industry had improved and profitability has been on the uptrend.

26. Madam President, the supervision of banks has been strengthened with systems and structures to identify, assess and proactively mitigate or manage vulnerabilities and threats to stability. The Bank of Ghana has addressed the growing complexities and interconnectedness among various segments of the financial sector especially among banks and SDIs and the potential systemic risks that could arise due to regulatory arbitrage and information asymmetry.

27. Going forward, the financial sector will require constant regulatory and policy attention to mitigate the risks. The economic impact of the pandemic may result in higher non-performing loans and some capital erosion of banks. The Bank of Ghana is putting greater focus on identifying the early warning signals and initiating prompt corrective action. The symptoms of a weaker bank are usually poor asset quality, lack of profitability, loss of capital, excessive leverage, excessive risk exposure, poor conduct and liquidity concerns. These symptoms could occur due to an economic downturn but are often caused by inappropriate business models, poor governance, poor decision making by senior management and misalignment of internal incentive structures with external stakeholder interests.

28. Looking ahead, the Bank of Ghana will continue to strengthen all the regulatory measures implemented over the last three and half years to maintain confidence and safeguard financial stability. In the aftermath of the pandemic, (2021, 2022 or 2023) we would have to follow a careful unwinding of countercyclical measures that we have implemented and allow the financial system to function without the regulatory forbearance that we have put into place. Banks will have to be vigilant and upgrade their capabilities, improve governance and risk culture and we are optimistic that with this approach, we will build a robust, resilient and capable financial sector to support Ghana's beyond Aid Agenda.

29. Thank you, and let us continue to observe all the covid-19 protocols and God bless us all.