CHARTERED INSTITUTE OF BANKERS, GHANA

2022 ANNUAL BANKERS' DINNER/GOVERNOR'S DAY

KEYNOTE ADDRESS

BY

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GOVERNOR, BANK OF GHANA

2ND DECEMBER 2022

ACCRA INTERNATIONAL CONFERENCE CENTRE

President of the 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. It is always a pleasure to join the banking fraternity to crown the week-long celebrations of the Chartered Institute of Bankers. Let me thank the President and Council Members of the CIB for the excellent work on organising these activities year after year. As the tradition goes, this Annual Dinner, code named the 'Governor's Day', provides a unique platform to unwind in a relaxed atmosphere, reflect on the economic and banking sector developments throughout the year, and strategize for the year ahead. To move the process along, this keynote address will focus on where we have come from as a country, assess the current economic and banking environment, and provide some guidance on the outlook.

Current economic developments and outlook

2. Distinguished Ladies and Gentlemen, same time last year, there was some optimism that the Covid-19 pandemic was ebbing, with expectations of a stronger recovery in 2022. To a large extent, the prevailing accommodative policy mix instituted in 2020 was still prevalent and contributed significantly to a faster pace of economic recovery from the lingering effects of the pandemic. Although Ghana weathered the pandemic well, there were unintended consequences of the policy actions taken.

3. First, the economy had to contend with the global spillover effects in terms of slower growth, which had depressed crude oil prices, and led to loss of fiscal revenues on the domestic front. Secondly, the unintended consequences of the expansionary fiscal policies during the pandemic evolved into widened budget deficits and large financing gaps. And, finally, the resultant higher domestic and external borrowing requirements culminated into debt sustainability concerns. These developments, coupled with external shocks, subsequently changed the course of the Ghanaian economy in 2022.

4. Ladies and Gentlemen, no sooner than we entered the year 2022 that the Russia-Ukraine War broke out, and coupled with the aforementioned emerging weaknesses, set off a chain of events with adverse consequences on the domestic economy. To start with, the unfolding events heightened global economic uncertainty, unsettled commodity markets, especially energy and food, which erupted into an inflation wave sweeping across various countries.

5. With inflation reaching historically high levels, central banks, led by the US Federal Reserve aggressively hiked policy rates, resulting in tight global financing conditions and a stronger US dollar against major international currencies. These developments resulted in sharp portfolio reversals, which spilled over into currency pressures and imported inflation, especially in emerging markets and frontier economies.

6. As the spillovers from the global economy filtered through, the Ghanaian economy was confronted with sovereign downgrades due to fiscal sustainability concerns. As a result, the implementation of the 2022 Budget came under severe stress, characterised by revenue shortfalls, expenditure rigidities, lack of access to the international capital market to fund the budget, uncovered auctions and non-resident portfolio reversals. All these acted in concert to create a huge financing gap, and with lack of external financing opportunities, the financing pressures landed on the Bank

of Ghana's overdraft facility available to Government for short term cashflow management, without which the Government would have had difficulty in meeting its obligations.

7. During these difficulties, the country's credit ratings suffered consecutive sovereign downgrades through to November 2022 by the three global rating agencies of Fitch, S&P and Moody's. This implied that the country was technically blocked from borrowing on the international capital market, which triggered sharp portfolio reversals and triggered intense volatility on the foreign exchange market. With increased demand for foreign exchange amid supply constraints, the Ghana cedi weakened significantly. This together with the speculation of a possible debt restructuring which led to portfolio rebalancing in favour of foreign currency holdings as against Ghana cedi denominated assets, led to the Ghana Cedi cumulatively depreciated by 54.2 percent, against the US dollar, in the year to November 2022, compared with 2.7 percent depreciation in November 2021.

8. The "sudden stop" in inflows and portfolio reversals, exerted substantial pressure on the balance of payments and therefore our reserves buffers. Despite the favourable developments in the trade account, the current account deteriorated in the first nine months of the year as developments in the services and income accounts outweighed the surplus in the trade account. The current account deficit worsened from 2.4 percent of GDP in the third quarter of 2021 to 2.8 percent of GDP in the same period of 2022. The capital and financial account recorded outflows of US$1.5 billion during the review period, compared with significant inflows of US$3.5 billion a year earlier. The outflows were largely explained by portfolio reversals, reduced foreign direct investment inflows, and lower private capital inflows. The current account deficit, together with the outflows in the capital and financial accounts, resulted in a balance of payments deficit of US$3.4 billion at the end of September 2022, compared with a

balance of payments surplus of US$510.0 million in December 2021, leading to a significant drawdown in international reserves.

9. The result of the deteriorating external position was the significant drawn down of our reserves. At the end of October 2022, the stock of Gross International Reserves position had declined to US$6.7 billion equivalent to 2.9 months of import cover compared with the reserve level of US$9.7 billion (4.3 months of imports) at the end of December 2021. Net International Reserves, which excludes encumbered assets and petroleum funds, was estimated at US$2.8 billion as at October 2022.

10. Ladies and Gentlemen, these developments together with persistent shocks from upward adjustment in ex-pump petroleum prices, utility tariff adjustments, transportation fares as well as higher food prices resulted in heightened inflationary pressures. Headline inflation reached a record high of 40.4 percent as at end-October 2022, from 13.9 percent in January 2022. The underlying inflationary pressures also heightened, with the Bank's measure of core inflation, defined to exclude energy and utility prices, almost at par with headline inflation, an indication of broad-based inflationary pressures.

11. Although domestic growth conditions remained strong in the first half of the year, the latest high frequency indicators point to some moderation. The Bank's Composite Index of Economic Activity contracted by 1.2 percent year-on-year in the third quarter, relative to the strong growth recorded in the first two quarters, on the back of weakened consumption, trade, and construction activities. Also, the Bank's survey of Business and Consumer confidence conducted in October 2022 pointed to softening economic sentiments, due to rising inflation, rising operational costs, sharp currency depreciation, and weak consumer demand. These trends signal that growth may remain below potential levels on account of rising cost of living amid significant

uncertainty in the outlook. As contained in the 2023 Budget Review, overall GDP growth is projected at 3.5 percent in 2022, lower than the 5.4 percent growth recorded in 2021.

12. Distinguished Ladies and Gentlemen, with increasing vulnerabilities, the Bank has pursued aggressive policy tightening since November 2021 to deal with the rising inflation and exchange rate depreciation, and to re-anchor inflation expectations. Since November 2021, the Bank's Monetary Policy Committee (MPC) has raised the monetary policy rate from 14.5 percent to 27.0 percent in November 2022. This policy drive was underscored by the need to rein in inflationary pressures, tighten liquidity conditions, and return the economy to a disinflation path, a condition necessary for macroeconomic stability and growth.

13. In response to the upward adjustments in the policy rate, interest rates broadly trended upward across the spectrum of the yield curve. The interbank weighted average rate increased to 23.98 percent in October 2022 from 12.66 percent in October 2021, consistent with the increases in the policy rate and the incremental hikes in the Cash Reserve Ratio from 12 percent in August 2022 to 14 percent in October. In tandem, the average lending rates of banks rose to 31.40 percent in October 2022 from 20.34 percent in the same period of 2021.

14. Ladies and Gentlemen, domestic economic conditions have remained challenging in the year, reflected by widened fiscal and current account deficits, significant loss of reserves, rising inflation, and currency pressures. These have underscored the need to engage the IMF for balance of payments support. The policy discussions have progressed steadily, and an expected IMF programme would help address the underlying macroeconomic challenges and restore fiscal and debt sustainability, and provide sustainable balance of payments cushion.

15. So far, the 2023 Budget Statement has set the tone to reset fiscal policy and firmly placed it on the course of fiscal consolidation. New revenue measures and expenditure rationalization measures have been announced. To guarantee debt sustainability over the medium term, a debt exchange operation is proposed to be undertaken to support the consolidation agenda. The broad expectation is for steadfast implementation of these measures to foster confidence, improve the debt-metrics and complement the current monetary policy stance at tackling current inflationary pressures.

16. The developments during the year culminated in significant loss of reserves, and with no access to the international capital market for financing, reserves build-up has been constrained. Measures are being taken to gradually rebuild reserves in more sustainable ways to preserve stability, going forward. One of such measures is the Bank's Domestic Gold Purchase Programme (DGP).

17. Ladies and Gentlemen, the overall objective of the gold purchase programme is to shore up the Banks' foreign reserves with monetary gold. Among others, the DGP seeks to provide an avenue to organically increase the country's reserves upon refinery of the purchased gold, without distorting incentives of local gold producers. Over the long term, this has the potential of enhancing currency stability and confidence in the economy. Moreover, increasing the country's gold holdings will ensure preservation of capital of the reserve portfolio. The ability to leverage the gold holdings to raise funds at competitive terms for short-term liquidity management is also an added advantage. Since the inception of the programme in June 2021, the Bank has gradually purchased 75,268.70 oz of gold, with arrangements in place to receive a total of over 100,278.67 oz from the mining firms between November and December 2022.

Let me now turn attention to assessment of the banking sector….

18. Ladies and Gentlemen, overall assessment of the banking sector indicates strong performance, but with emerging risks in the outlook arising from spillovers from the recent macroeconomic challenges. The size of the balance sheet of the banking system continues to expand. In the first ten months of 2022, banks recorded strong asset growth and improved profitability. Total assets of the banking industry grew by 43.7 percent year-on-year to GH¢249.9 billion, largely due to sustained growth in deposits and borrowings, as well as the revaluation effect of the foreign currency component of key balance sheet indicators.

19. The banking sector remained profitable with profit-after-tax for the first-ten months of 2022 at GH¢4.4 billion, representing an increase of 17.2 percent, compared with 10.0 percent growth during the same period last year. Net interest income, net fees and commissions, and operating income, all improved over the period. The industry's operating expenses, however, increased by 28.1 percent in October 2022, compared with 11.0 percent for same period in 2021, on the back of the current challenging operating environment. Loan loss provisions also went up significantly, reflecting the pickup in credit growth and elevated credit risks. Over the same period, performances of the efficiency indicators were mixed. While personnel expenses to gross income ratio registered an improvement, non-interest expenses to gross income ratio deteriorated.

20. Ladies and Gentlemen, since the onset of Covid-19, the Bank has implemented several macroprudential policy measures, first to support the recovery process, and second, to strengthen the regulatory frameworks to ensure that banks are safe, sound, and compliant with international standards. As the pandemic ebbed and economy

rebounded, the measures put in place to improve liquidity conditions were reversed and new directives introduced as part of the regulatory reform agenda. For instance, the Cash Reserve Ratio (CRR) was revised up incrementally, and the prudential provisioning rate for loans in the Other Loans Exceptionally Mentioned (OLEM) category was reset to the pre-pandemic level of 10 percent.

21. In terms of policy frameworks, the following directives were introduced as part of the regulatory reform agenda.
    - First, was the *Supervisory Guidance under Section 62 of Act 930* on Eligible Collaterals, which aims to broaden the scope of eligible instruments that may be considered for collateral purposes as outlined under Section 62 subsections (8) and (9) of Act 930.
    - Second, the *Corporate Governance Disclosure Directive* was issued to enhance transparency, market discipline and accountability of RFIs to stakeholders as well as to assess the effectiveness of bank's Corporate Governance practices.
    - Third, was the issuance of the *Exposure Draft of Prudential Requirements for DFIs* to operationalise relevant sections of the Development Finance Institutions Act, 2020 (Act 1032) and give full effect to its provisions. The Bank is in the process of finalising the Directive, which was issued in May 2022.
    - Fourth, the Bank revised the *Nostro limit* from 10 to 15 percent in response to the currency depreciation, which had resulted in banks' breaching the initial 10 percent limit required per section 62 (5) of Act 930. The increase only applies to balances held for correspondent banking purposes, and finally,
    - The Bank also granted *six months dispensation for banks* whose forex exposures were in breach of the Single Obligor Limit (SOL) because of the currency depreciation, in line with section 77 (2) of Act 930.

22. Ladies and Gentlemen, it is important to note that banks are fully implementing Pillar 1 of the Basel II/III Capital Standards (CRD). The broad compliance followed the publication of the Risk Management Directive issued in November 2021, which set off the Pillar 2 phase of implementation of the Basel capital standards. To further enhance the process, BOG has drafted the Liquidity Risk Management Directive, Supervisory Review and Evaluation Process (SREP) Guidance Notes, and the Internal Capital Adequacy Assessment Process (ICAAP) Guidance Notes, to support implementation of Pillar 2.

23. Ladies and Gentlemen, implementation on the Sustainable Banking Principles (SBPs) has progressed steadily. In collaboration with the International Finance Corporation, reporting templates were prepared to help the submission of information, as well as monitor the progress made by banks. So far, the Bank has received three rounds of reporting for March and September 2021, and March 2022, which indicated some progress in the average compliance rate of SBPs implementation. Additional capacity building and awareness creation on the SBPs are on-going, in collaboration with the Ghana Association of Banks (GAB) and the Environmental Protection Agency (EPA). There were over 100 participants from all banks in these sessions, which aimed to strengthen implementation of principle 2, with a focus on internal Environment, Social and Governance (ESG) in banks' operations.

24. Implementation of these sustainability initiatives has earned Bank of Ghana's admittance into international organisations, such as the Network for Greening the Financial System and the Sustainable Banking and Finance Network, that promote sustainable banking and address climate related risks in the financial sectors. To reinforce the ESG principles in banking practices, the Bank plans to further develop other sustainable finance guidelines and launch a roadmap for implementation in collaboration with other regulators within the financial sector.

25. Ladies and Gentlemen, as online business transactions have grown, so has the incidence of cyber-attacks, and mobile money and ATM fraud. To forestall such activities from becoming embedded and weakening the digitization drive, the Bank established a Financial Industry Command Security Operations Centre (FICSOC) in 2018. Among others, FICSOC seeks to provide broader perspectives on cyber threats confronting the sector through constant monitoring and intelligence sharing. Our review of the implementation of the Directive indicated that most banks had implemented the required controls in line with international standards. Despite implementing these controls, the global cybersecurity landscape is continually changing. To keep up with these changes, the Bank of Ghana will review and reissue the Cyber and Information Security Directive in 2023, in consultation with the banking industry.

26. A major component of the Directive is the implementation of the Financial Industry Command Security Operations Centre (FICSOC) for the industry by the Bank of Ghana. In this regard, the Bank has worked closely with the industry to complete a state-of-art FICSOC infrastructure, which is expected to be fully operational in the first quarter of 2023. The FICSOC will assist with:
    - identifying threats in the banking sector through proactive monitoring,
    - strengthening the cybersecurity posture of Member Institutions,
    - sharing cybersecurity threat intelligence to improve resilience and incident management, and
    - conducting digital forensic investigation where necessary.

27. In 2020, Ghana enacted Act 1044 in response to the strategic deficiencies in the 2016 Mutual Evaluation on Ghana. The Bank in association with the Financial Intelligence Centre (FIC) revised its AML/CFT & P Guideline. It is expected that, when this

document is publicised, the Association shall encourage its members to update their internal AML/CFT&P frameworks to be consistent with the Act and the revised Guideline.

28. Due to the critical nature of Correspondent Banking Relationships (CBR) with the outside world and its impact on the economy, the Bank would like to draw the attention of the Association and membership to pay critical attention to their Correspondent Banking Relationships (CRBs). This will avoid derisking of banks by foreign banks, and the country from being blacklisted by the international community as was done in 2018.

29. A recent Inter-Governmental Action Group against Money Laundering (GIABA) report indicated malfeasance in the forex trade by some Ghanaian institutions in recent times. We believe that banks have an important role to play in ensuring financial stability. As such, banks are cautioned to be circumspect and mindful of existing laws in the forex trade and avoid the temptation of engaging in unethical forex practices.

30. As at July, the Ghana Card became the sole Identity document acceptable for all banking transactions. Usage of the card with its enhanced security features will avoid individual miscreants from exploiting the banking system for money laundering and other financial crimes. Even though usage of the card is fraught with some challenges, it has become imperative to adopt this path in order to curtail the security and criminal implications.

31. Consumers of financial products and services are key players in the financial sector. This explains why the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930) places a responsibility on the Bank of Ghana to develop appropriate consumer protection measures, to ensure that the interest of customers of banks &

specialised deposit-taking institutions (SDIs) are adequately protected whiles unlawful or improper practices of service providers are dealt with. It is to this end that the Bank of Ghana has intensified its market conduct supervision of the industry to ensure that service providers conduct their operations in a manner which protects the interest of customers and ensure their fair treatment.

32. The Bank has in recent times published several key Directives, Notices and Guidelines for compliance by banks and SDIs with a view to enhancing proper conduct and enhanced consumer protection. These include Directives on the Abolition of Unfair Charges and Practices, Treatment of Unclaimed Balances and Dormant Accounts, Disclosure and Product Transparency Rules for Credit Products and Services, and Consumer Recourse Mechanism Guidelines for financial Service Providers.

33. In addition to the strengthening of the regulatory framework for conduct supervision, the Bank has also intensified its on-site examination of banks to encourage and ensure compliance with regulatory requirements in the area of market conduct. It is the expectation of the Central Bank that banks will pay more attention to this aspect of their operations to encourage and increase customer retention.

34. To help improve customer awareness of their rights and responsibilities, and of the various products and services provided by regulated institutions, the Bank of Ghana has also stepped up its financial literacy programmes to provide more education to the public, and especially to financial consumers. This is also aimed at helping to protect the public against financial fraud and loss of funds with its negative impact on the financial sector.

35. Our public sensitisation drive is also aimed at equipping consumers with key and relevant information that will enable them make prudent financial decisions. We urge

all banks to join the Bank of Ghana in the customer education campaign as a well-informed customer is a valuable asset to the financial service provider.

36. The ultimate goal of our market conduct supervision is to help promote and sustain public trust and confidence in the financial sector and to deepen financial inclusion in the economy. We therefore encourage all financial institutions to pay more attention to conduct, particularly in the area of customer service, ethical behaviour and general professionalism.

CBDC and Cryptocurrency

37. Ladies and Gentlemen, one cannot talk about developments in the banking sector, without touching on Ghana's steady progress towards financial digitisation. Indeed, digital financial services have ushered in an era of improved access to a variety of financial products services, and thereby enhanced financial inclusion. In all these, the Bank's role cannot be overemphasised, and to reinforce the gains made, the Bank commenced processes towards the issuance of Central Bank Digital Currencies (CBDC), known as the eCedi, in 2021. A successful implementation of the CBDC will further advance financial inclusion, strengthen policy transmission, promote efficiency in the payment system, and provide a safe alternative to private digital assets.

38. After taking the necessary preparatory steps, a three (3) staged pilot was implemented in Accra and Tarkwa in collaboration with CAL Bank, Fidelity Bank, Vodafone Cash, IT Consortium and ExpressPay to test the online version of the eCedi, while an off-line version was tested in Sefwi Asafo. The initial findings from the pilot have provided the Bank with deep insights on the possible implementation process for the eCedi, and these results will soon be shared with industry players.

39. As work on the eCedi progresses, one cannot ignore the growing interest and patronage of digital or virtual assets, popularly called cryptocurrencies mushrooming in the country. Having dominated global headlines for both innovation and calamity, cryptos are gaining grounds on the African continent. Several retail investors with varied appreciation of its underlying concepts and inherent risks are often lured by the prospects of high yields, while some innovation focused users look to its efficiencies beyond payments and investments.

40. Given the recent trends, the Bank of Ghana initiated processes to actively study and monitor cryptocurrency and related technologies and models such as blockchain, decentralised finance (DeFi) and stablecoins. The Bank has subsequently gained institutional understanding of the concepts, monitored global market developments, and reviewed several regulatory and global standards setting bodies across various jurisdictions, including the Financial Action Task Force (FATF), Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS).

41. The key lesson drawn from these studies is that some countries took early lead to either impose outright ban on cryptocurrency transactions or instituted some regulatory measures to safely accommodate the operations of cryptocurrency in their various jurisdictions. Frontally, some jurisdictions such as the European Union Markets in Crypto assets (MiCA) and the Monetary Authority of Singapore (MAS) developed regional frameworks for crypto regulation.

42. In all these, the clearest takeaway for the Bank is the fact that, cryptocurrencies are digital assets and not currency, and in as much as cryptocurrency is associated with other key risks including volatility, cyber-theft, loss of funds with potential threat to financial stability, an outright ban of cryptocurrency has proven ineffective, mainly due to its decentralized and borderless nature. Consequently, the Bank intends to

continue to allow blockchain in the regulatory sandbox, as the first step while we continue to explore a comprehensive regulatory framework for the digital asset industry.

43. It is important to note, however, that notwithstanding this decision to develop a regulatory framework for crypto assets, the Bank still stands by its caution statements to the public on the dangers associated with cryptocurrency transactions as contained in several notices issued in the past. Interested parties need to be wary about potential losses that could occur when trading in cryptocurrencies. The Bank equally stands by its Directive as per the Notice issued on March 9, 2022, that all licensed institutions including banks, specialized deposit-taking institutions, dedicated electronic money issuers and payment service providers should refrain from facilitating cryptocurrency transactions via their platforms or agent outlets.

Concluding Remarks

44. In closing, Ladies and Gentlemen, let me reiterate that these are not ordinary times. The Ghanaian economy is currently faced with enormous headwinds that have generated macroeconomic instability, reflected by widened twin deficits, and currency pressures and historically high inflation. Our latest forecast shows that inflation will likely peak in the first quarter of 2023 and ease thereafter, subject to continued monetary policy tightness and the deployment of tools to contain excess liquidity in the economy. This forecast would have to be monitored closely with potential upside risks including the VAT increase, utility price adjustment, pass-through of the recent accelerated depreciation of the cedi and the implications of the debt exchange.

45. This notwithstanding, efforts are being made to turn the situation around, starting with the 2023 Budget, which has outlined measures to unwind the large fiscal deficits and reduce the debt levels. In addition, the near-term adoption of an IMF programme

will provide balance of payments support to help close the wide financing gaps, boost investor confidence, and restore macroeconomic stability, a necessary condition for economic growth. To a large extent, the lingering effects of the pandemic has waned, and implementation of sound macroeconomic frameworks, amid easing geopolitical tensions should re-anchor inflation expectations, with positive spillovers on the domestic economy.

46. The Bank will continue to implement prudent policies as much as practicable to restore price and exchange rate stability. In addition, the regulatory and supervisory frameworks will be enhanced, while bank's risk management systems are closely monitored to ensure stability and prevent undue stress from the macroeconomic environment and debt exchange.

47. Mr. President, Ladies and Gentlemen, despite the current daunting challenges, let us remain hopeful that the Ghanaian economy will bounce back as we prepare to ring in a new year. On this note, Distinguished Ladies and Gentlemen, let me wish you all compliments of the season and a Happy and Prosperous New Year in advance.

Thank you for your attention.