THE CHARTERED INSTITUTE OF BANKERS (GHANA)

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ADDRESS BY

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The First Deputy Governor of Bank of Ghana, Dr. Maxwell Opoku-Afari
The President of Chartered Institute of Bankers (CIB), Ghana,
CEO of the CIB,
Members of the Governing Council of CIB,
President of the Ghana Association of Banks,
Fellow Members of the Institute,
Chief Executive Officers of Banks,
Members of the Banking Fraternity,
Distinguished Guests,
Ladies and Gentlemen.

1. It is a great pleasure and honour to join you at this annual event which crowns the activities of the Institute for the year. Let me thank the President and the Chief Executive Officer of the Chartered Institute of Bankers, and the Management team for the kind invitation to deliver the keynote speech. But, before I start, let me say that as stakeholders of the financial sector and collectively as a country, we do have a lot to be thankful for as another challenging, but fulfilling year gradually draws to a close.

2. Distinguished Guests, the banking sector has progressed steadily amidst series of storms in the past six years. We witnessed the banking clean-up exercise between 2017 and 2019, the COVID-19 pandemic in 2020, spillovers from geopolitical tensions in Europe, and an economic crisis in 2022 that triggered a domestic debt exchange. Despite all these, banks have remained relatively stable and sound, partly because the Bank of Ghana provided leadership to the industry to navigate through these economic uncertainties and volatilities with policy clarity and focus safeguarding stability of the financial system at all cost.

3. As noted by the former Bank of England Governor, Mervyn King, *"Central bank governors require three key qualities; a deep commitment to price stability; an ability to be clear and direct to politicians about the policies that are required to produce economic stability; and*

the ability to be unpopular when circumstances require". To appreciate this quote, my speech today will recap where we started from in 2017, narrate the effects of recurring shocks on the economy and difficult policy actions taken to turn the situation around, and finally, provide an outlook for the economy.

DEVELOPMENTS BEFORE THE CRISIS PERIOD

4. Distinguished Guests, Ladies and Gentlemen, Ghana's macroeconomic fundamentals were firmly anchored by the end of 2019, following the implementation of sound macroeconomic policies, prudent economic management under an IMF Extended Credit Facility which Ghana completed in 2019, as well as far reaching banking sector reforms from 2017 to 2019. Inflation had edged down to 7.9 percent in December 2019, well within the medium-term target band of 8±2 percent and stayed in single digit for about 24 months, growth was strong, the exchange rate was relatively stable, the current account had improved significantly supported by three years of trade surplus, significant narrowing of current account deficit, and the associated strong reserve buildup.

5. The three-year banking sector reforms successfully ended in 2019 and included an increase in the minimum capital requirement for banks, revocation of licences of insolvent institutions, and an overhaul of the regulatory and supervisory frameworks. At the end, the sector became better capitalized, liquid, profitable, more resilient with adequate capital buffers, and more operationally efficient. Though the closure of the defunct banks was difficult and painful, the measures taken by the Bank of Ghana, supported by Government's assumption of the payments due depositors, helped avert the total collapse of the banking sector and by extension the rest of the financial sector. Although we note the sanity and resilience in the banking system after the clean-up exercise, the full benefits would be

achieved with a much faster completion of the legal proceedings including over 1,300 civil and 21 criminal cases currently pending at different stages in our courts.

THE CRISIS PERIOD AND THE POLICY ACTIONS

6. Ladies and Gentlemen, with these strong economic fundamentals, a sound and stable financial sector, as well as relatively developed payment system architecture, the country had been placed on a path of transitioning to accelerated growth and development, even in the face of challenges that typically come with the political cycle. Then came an unprecedented global shock in 2020, which had a three-pronged impact on health, social life, and the economy. I am sure the memories of the devastating effects of the pandemic and the global uncertainty it triggered are still fresh on our minds. This notwithstanding, the strong response with clear public policy initiatives by the government helped manage the consequences of the pandemic effectively. Of course, protecting lives and livelihoods at all costs required exceptional financing. Fortunately, through the swift interventions of the international financial institutions, the IMF (through the Rapid Credit Facility) and the World Bank, a significant portion of this financing was met. In addition, the Bank of Ghana had to fall back on its buffers and policy space to provide the needed additional support through the purchase of GHS10 billion of the Government's Covid-19 bonds, which helped to close the exceptional financing gap. These interventions from the Bank of Ghana, the IMF, and the World Bank, assisted the government to navigate and effectively contain the devastating effects of the pandemic.
7. Despite the additional support to government, the fiscal cost associated with containing the pandemic was large and exacerbated by the spillovers from the Russia-Ukraine war in 2022. As a result, sovereign spreads on Ghana bonds widened, and Credit Rating Agencies further downgraded Ghana's sovereign debt rating, which effectively blocked Ghana's access to the international capital markets. Thus, the planned external borrowing to the tune

of about US$3 billion was missed. It is important to state that Ghana's annual external debt service payments and energy payments alone was in the range of 3 to 4 billion US dollars annually as at 2020. A significant part of the annual borrowing was therefore to manage debt liabilities, including energy related payment obligations.

8. Ladies and Gentlemen, the lack of access to the market for new financing immediately triggered a liquidity crisis, spilling over into a balance of payments crisis as the country had to continue to honour debt service obligations and energy payments. In doing so, within two (2) months, the Bank of Ghana lost about US$500 million in reserves, while overdraft facility for the government increased significantly. Throughout the first half of the year 2022, there was no new foreign financing until July when the Afreximbank stepped in with US$750 million support.

9. It was under these circumstances, that the Government had to approach the IMF for support in July 2022. The IMF immediately sent in a Mission to assess the economic situation. That mission concluded that the economy was at the tipping point. It was decided with, the understanding of the IMF, that the Bank of Ghana should continue to provide the necessary support to keep the economy running until a reform programme had been put into place to trigger IMF financing.

10. Ladies and Gentlemen, it is important to remind ourselves, as players in the global economy, that the crisis that hit the Ghanaian economy in 2022 was like what pertained in many other frontier and emerging market economies, including Egypt, Argentina, Turkey, Kenya, Sri Lanka, and Pakistan, just to mention a few. These countries, except for Sri Lanka, had built policy buffers and resilience of their key institutions provided the needed anchor to hold their economies until reform packages were introduced. In the case of Ghana, the strong policy buffers built over time, allowed the bank to step in to support the

economy until the IMF programme was concluded, because of the policy buffers built, following years of prudent management. The Bank played a critical role to support the economy during the crisis period with distinction. It is very clear the bank's role in supporting the economy through this crisis has not been fully understood and in some cases deliberately misinterpreted. The Bank came under severe attack across the media space, culminating in an organised demonstration against the institution.

11. Ladies and Gentlemen, central banks all over the world have had to re-evaluate their mandate since the global financial crisis of 2007/2008 and have supported fiscal policy to play a countercyclical role in stabilizing economies. Consequently, central banking has never been the same. Before the financial crisis, the quintessential task of central banks was straightforward, keeping inflation within a tight range through the control of short-term interest rates. In a world of polycrisis, central banks have found themselves broadening monetary policy formulation beyond interest rates to include the deployment of balance sheets in a variety of unconventional monetary policies. Thus, the crisis exposed a chasm between theory and practice.

12. Indeed, all that Bank of Ghana did as various shocks hit the economy was consistent with prudent crisis management. In 2020 pandemic, the Central Bank supported the financing of the budget to protect lives and livelihoods. Again, in the 2022 economic and liquidity crisis, the Central Bank would not have acted differently but played its role as an automatic stabilizer to avoid pushing the economy to a tipping point which possibly could have spilled into social upheavals as was the case in Sri Lanka. It is very clear that only a Central Bank that has been prudently ran, built buffers, and well positioned, that can step in to support an economy from collapse. It is therefore most appropriate, I believe, to state that Ghanaians should rather applaud and commend the resilience of the Bank of Ghana.

The IMF Programme and Corrective Measures

13. Indeed, the crisis ended up with an IMF bailout programme which was approved in May 2023. The corrective policies included stringent fiscal and monetary policies to help restore macroeconomic stability and debt sustainability, while laying the foundation for inclusive growth. It emerged from the discussions that ensued that macroeconomic adjustments alone would not be enough to deal with the problem of debt sustainability, as the debt sustainability analysis confirmed that Ghana's debt would still not be sustainable even after the expected macroeconomic adjustments and therefore some form of debt treatment was needed to support the entire programme. The structure of Ghana's debt was such that both domestic and external debt treatments were required due to their almost equal proportions in the total debt. The Debt Exchange (DDE) program, where the stock of Government of Ghana debt was to be halved from 105 percent of GDP (including contingent liabilities) to 55 percent of GDP by 2028 was launched, starting off with the Domestic Debt Exchange.

14. Distinguished Guests, implementation of the DDEP was not an easy task as it was the first time that a country in Africa had to undergo a debt restructuring programme, which not only covered external creditors, but also domestic creditors. Broadly, sovereign debt workouts are painful, for the debtor country, its citizens, its creditors, and official creditors. It must be executed very carefully for the economy to return to normal economic activity quickly. Under circumstances where access to credit markets remains unavailable, and trade finance is hampered, foreign direct investment is withered, and financial instability remains, the longer it will take the economy to recover.

15. The initial debt restructuring scenarios had to be tweaked several times between the initial announcement and the final scenarios. On the domestic side, households, institutions, pension funds and the Banks, somewhat saw less punitive treatment than initially designed.

Given that the debt threshold remained unchanged, the Bank of Ghana had to therefore step in as the "loss absorber" with a more punitive treatment (50% haircut) than initially designed, leading to a large loss at the Bank of Ghana, driving it into negative equity at the end of 2022. This is not to justify the losses, but to indicate that the policy choices made by the Bank during those difficult times were for the greater good of the economy. The Bank has commenced corrective actions to deal with the aftereffects of the losses and remains committed to the highest standards of sound management, transparent accounting, and good governance practises.

THE EMERGING RECOVERY

16. Ladies and Gentlemen, the policy mix under the IMF--supported PC-PEG programme characterised by stringent fiscal and monetary policies to ease off aggregate demand pressures and contain the rising inflation is gradually yielding positive results. The cumulative increases in the policy rate by 1,550 basis points since January 2022, supported by the relative exchange rate stability have supported the disinflation process. From the peak of 54.1 percent in December 2022, headline inflation has declined to 35.2 percent in October 2023. Non-food inflation has also declined sharply by more than 20 percent during the period, broadly aligned with the monetary policy stance. In addition, underlying inflation pressures are easing, evidenced by the downward trend in all the core inflation measures. Ultimately, the goal is to gradually re-anchor inflation back within the medium-term target of 8±2 percent.

17. Furthermore, the country's external sector position has improved in the first three quarters of the year with a lower overall balance of payments deficit outturn. This was on the back of a current account surplus, reflecting higher gold export receipts and import compression,

as well as lower outflows from the income accounts due to the external debt standstill. The lower balance of payments deficit, the domestic gold purchase programme, inflows from the mining and oil sectors, as well as the liquidation of some short-term external liabilities have contributed to increased reserve buffers and provided some stability in the foreign exchange market.

18. Despite the tight policy framework, growth conditions are gradually improving. In the first half of 2023, GDP growth averaged 3.2 percent. Also, high frequency economic indicators monitored by the Bank have continued to improve, signalling the likelihood of outperforming the GDP growth projection of 1.5 percent for the year. These developments provide evidence that the policy mix under the IMF Extended Credit Facility is beginning to yield results.

19. Now to the banking sector, Ladies and Gentlemen, recapitalisation by banks in 2018/19 and the clean-up process from 2017-2019 were meant to position the banking sector to withstand shocks such as what emerged in 2020 and 2022. The 2022 audited Financial Statements of banks, following the Domestic Debt Exchange Programme (DDEP), pointed to significant impairments in capital levels of banks. This impact was largely attributable to the significant percentage holdings of assets in GoG bonds. Thus, the mark-to-market valuation losses following the DDEP, coupled with higher impairments on loans and rising operating costs, resulted in significant losses in 2022. The main profitability indicators, namely, return-on-assets and return-on-equity all turned negative because of the industry's loss position. It is however important to note that the banking industry would have been in a far worse situation with this kind of shock had the earlier reforms not occurred.

20. To moderate the potential impact and help safeguard financial stability, the Central Bank gave temporary regulatory reliefs for banks and SDIs who participated in the DDEP. While

these reliefs were intended to cushion banks and SDIs from the impacts of the DDEP, the Bank of Ghana expected them to fully restore capital gaps caused by the DDEP proportionally over the next three years, ending 31st December 2025 in line with capital restoration plans approved by the Bank of Ghana. The Government of Ghana has also published the operational framework for eligible banks to access recapitalisation support from the Ghana Financial Stability Fund.

21. Despite the significant DDEP-related losses in 2022, prudential data in the year to October 2023, show relative stability in the banking sector. Total assets have increased by 16.7 percent year-on-year to GH¢257.89 billion funded by deposits, which recorded 26.6 percent growth to GH¢199.94 billion from GH¢172.09 billion. Total borrowings by banks, however, contracted by 21.0 percent to GH¢14.94 billion from GH¢30.41 billion a year earlier.

22. Profitability of banks has remained relatively strong, on the back of higher interest income on loans and investments as well as other income sources. These developments culminated in an industry profit-after-tax of GH¢7.10 billion, representing a 60.4 percent annual growth, compared with 17.2 percent growth in 2022. Capital Adequacy Ratio, adjusted for the regulatory reliefs, was 13.4 percent in October 2023, higher than the revised prudential minimum of 10 percent. However, the industry's NPL ratio increased to 18.3 percent in October 2023, from 14.0 percent in October 2022, attributable to elevated credit risk associated with the lagged effect of the macroeconomic crisis in 2022.

OUTLOOK

23. Now, Ladies and Gentlemen, permit me to share the outlook to the economy more broadly from the perspective of the Central Bank**.** The direction of recent macroeconomic indicators has given some positive signals of a gradual turnaround in the economy. This follows the

implementation of sound macroeconomic policies, successful completion of the domestic debt restructuring, and a wide range of structural reforms. Indications are that sustained policy efforts are needed to firm up the emerging stability and growth.

24. One of such policy efforts is the Bank's Domestic Gold Purchase Programme (DGPP) which was launched in June 2021. With the DGPP, the Bank started converting a domestic asset into a foreign asset through the purchase of locally produced gold in local currency and converting same into monetary gold. The objective is to rebuild reserves, stabilise the foreign exchange market, and in turn, support the disinflation process. The first leg of DGPP is the Gold for Reserves (G4R) transactions initiated by the Bank to augment foreign reserves with a view to double gold holdings in the foreign exchange reserves within five years. Since its inception, the Bank has purchased 17.89 tons of gold, equivalent to US$1.14 billion, which has more than doubled the level of the central bank's gold reserves, well ahead of the initial target.

25. Besides the reserve buildup, the Gold for Oil (G4O) programme, another leg of the DGPP, has also helped to reduce the demand for US dollars by the Bulk Oil Distribution Companies (BDCs) who would otherwise have sourced forex from the market for the importation of petroleum products. So far, a total of 14.23 tons (US$907 million) of gold has been purchased for barter payments for importation of petroleum product. The G4O programme has also impacted the Bank's cashflow, helped maintain stable ex-pump prices, fostered market confidence, and supported the local currency.

26. In addition to the improvements in the macroeconomic environment and the performance of the banking sector, the Bank has also worked to strengthen the regulatory and supervisory frameworks to improve overall resilience of the financial system. Furthermore, the ongoing work of the Ghana Deposit Protection Corporation and the Financial Stability

Council will help to further strengthen the resilience of the banking sector and the protection of deposits.

27. Distinguished Ladies and Gentlemen, recent trends in the global regulatory developments mostly indicate that regulation is aimed at addressing emerging risks to the global financial system and facilitating the implementation of existing standards. In particular, the BCBS issued standards on effective management and supervision of climate-related financial risks in June 2022. Also, the International Sustainability Standards Board (ISSB) issued guidance on general requirements for disclosure of sustainability-related financial disclosures (IFRS S1) and climate-related disclosures (IFRS S2) in June 2023, all aimed at strengthening the disclosure and risk management function with respect to Climate-related financial risk. Considering this, the Institute of Chartered Accountants Ghana has set up a Steering Committee, with Bank of Ghana serving as a member, which is presently working on the adoption and implementation of the IFRS-S1 and IFRS-S2 disclosure requirements. In addition, the Bank of Ghana is developing a Directive on Climate-related Financial Risk Management. Implementation of the Sustainable Banking Principles (SBPs) has steadily progressed with significant improvement in banks' reporting and compliance rate.

28. Implementation of the Basel Capital Standards (issued in the 2018 notice on Capital Requirement Directive) has led to improvements in the quantity and quality of capital of banks. The introduction of capital buffers was a critical source of cushioning to banks against the impact of the pandemic and the more recent domestic debt restructuring. The Bank will continue to roll-out the Basel II/III capital standards aimed at enhancing and sustaining the resilience of the banking sector. Additionally, banks' compliance with the Corporate Governance Directive issued in 2018 has helped improve the quality of oversight of banks and has largely stemmed failures in the banking system.

29. Ladies and Gentlemen, despite the challenges during the year, we did not renege on our drive to embrace financial inclusion as a policy objective, recognizing its potential for broad based economic growth and poverty alleviation. Accordingly, the Bank of Ghana continued to use its policy and regulatory tools to provide the enabling regulatory environment to promote digital financial services to the benefit of all economic actors. Currently, there are 52 non-bank payment service providers who offer various forms of payment solutions to meet the increasing expectations of consumers. To further advance fintech activities, the Bank successfully engaged market players such as banks, DEMIs, PSPs, and MTOs in the inward remittance termination space to identify issues and implement policies and measures associated with inward remittance termination services to ensure a level playing field for all market participants.

30. Additionally, the Bank launched the first cohort of its Regulatory Sandbox to support innovations in the areas of new digital business models not currently covered explicitly or implicitly under existing regulation but have the potential to address a present financial inclusion challenge. Also, surveillance and investigations into activities of illegal lending applications have commenced with the identification of over 200 loan apps offering unapproved and unlicensed lending products to the Ghanaian consumer. In response, two separate public notices were issued in August 2022 and July 2023 to warn financial institutions to patronise only Bank of Ghana approved digital credit products.

31. To this effect, the Bank continuously engaged Google's Regulatory and Policy unit, which facilitated the removal and barring of 200 loan apps from the Google Play Store. Since then, Google has reviewed their Personal Loan Policy to restrict these lending apps from accessing device information including SMS and contacts. In addition, the Bank, in collaboration with the Economic Organised Crime Office (EOCO), Cyber Security

Authority (CSA) Ghana, and the Ghana Police embarked on a swoop which led to the arrest of 420 individuals, including three (3) foreigners in July 2023.

32. Ladies and Gentlemen, after the successful eCedi pilot, the Bank recently organised the eCedi Hackathon to encourage and potentially leverage on the local CBDC innovation, exchange knowledge and build partnerships. Out of 88 applications from students, programmers, FinTechs, bankers, engineers, and FinTech enthusiasts, etc., 66 were selected for the hackathon. Of this, 10 finalists have been shortlisted to go into prototyping for the Pitch Day. During this month, the Bank will hold a Demo Day for the finalists to demonstrate their innovative solutions and a winner will be selected. Indeed, the hackathon has garnered interest from stakeholders, including the international community, and it is expected that these innovators will not only offer solutions for the Ghanaian ecosystem, but also get the opportunity to network and attract investors.

33. Ladies and Gentlemen, over the years, most African central banks have devoted efforts at building and modernising their domestic payment infrastructures. Today in Ghana, we have a robust and interoperable payment systems where our Real Time Gross Settlement Systems and the National Switch continue to provide the catalytic infrastructures needed in ensuring connected payment systems. We have cards, mobile money wallets and bank accounts that are interoperable and have supported our instant payments. The net result of these initiatives is evidenced by the increased speed, easy access, transparency, and reduction in cost of transactions.

34. Ladies and Gentlemen, in as much as the use of digital technologies continues to change the business models of our financial institutions, these digital technologies also are important sources of cyber risk among these institutions. Cybersecurity risks can impair

operational capabilities and even threaten the viability of financial institutions. To forestall such activities from weakening the digitisation drive, the Bank issued the Cyber and Information Security Directive in 2018 to create a secure cyber environment for banks and other Bank of Ghana-regulated financial institutions. and ensure the delivery of a safe digital financial Industry. Further to this, the Bank, in collaboration with other stakeholders, initiated the Financial Industry Command Security Operations Centre (FICSOC) project in November 2020 to address cyber risks on a broader level. The FICSOC was formally launched in 2023 and serves as a threat intelligence-sharing platform designed for secure sharing and collaboration, as well as to facilitate the analysis and prioritisation of risks, the allocation of resources, and the understanding of threats tailored to each regulated financial institution and the banking industry.

35. Ladies and Gentlemen, until 2022, however, the Ghanaian domestic payment system had not been directly linked to any of the other West African countries nor any African country for that matter. This situation led to payment transactions meant for other African countries terminating outside the continent before reaching those countries which may be neighbours.

36. In 2020, the G20 Leaders endorsed the Roadmap for Enhancing Cross-border Payments, which provided the foundation for the Bank's engagements and collaborations for development of cross border payments in West Africa. Building on this roadmap, the West African Monetary Zone, through the support of Afreximbank's Pan African Payment and Settlement Systems (PAPSS) linked the Real Time Gross Settlement Systems (RTGS) of member central banks. This singular initiative was geared towards reducing the cost of transactions, improving access, and minimising the use of third currency for intra African trade.

37. Additionally, through the Association of African Central Banks' (AACB) Task Force on Payment Systems Integration and its two Working Groups, African central banks have pursued initiatives aimed at streamlining compliance to minimise cost of foreign exchange conversion as well as manage financial risks better. To navigate the transition from regional to international digitisation, the AACB, through its Payment Systems Integration Task Force, has committed to ensuring harmonisation of payment and settlement systems regulations, building a Pan African Payment platform, and leveraging existing payment technologies.

38. Looking ahead, the Bank will continue to engage industry actors to develop forward-looking policy frameworks in the areas of Digital Banking and Open Banking. Ladies and gentlemen, financial technologies can alter the financial sector landscape for the better and the Bank of Ghana remains committed to promoting innovation in the delivery of financial services and in this regard, will continue to monitor risks and opportunities for banks, payment service providers, and consumers to thrive in the digital financial ecosystem.

CONCLUSION

39. In conclusion, President of the CIB, Distinguished Ladies and Gentlemen, let me assure you that the economy is on a gradual rebound. Growth is improving steadily, inflation is declining, the fiscal and external positions are improving, alongside relative stability in the exchange rate. Absent unanticipated shocks in the outlook, the continued implementation of prudent policies will further strengthen the recovery process and reinforce the disinflationary process. These conditions will improve the operating environment for the banking sector to remain stable and strong to support the economy.

40. This notwithstanding, let me use this opportunity to once again assure the public that, on the back of the DDEP and other risks that may emerge in the banking sector, the Bank will

continue to closely monitor developments and, where need be, take appropriate and decisive actions to address same. Also, the Bank will ensure that depositors' funds remain safe, and that the financial system remains stable and resilient.

41. On this note, let me once again thank you all for your attention. I wish you all Merry Christmas and a Happy and Prosperous New Year in advance.