FINANCIAL STABILITY REVIEW

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Theme:

Strengthening financial stability to support macroeconomic recovery

2023

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Financial Stability Review
2023

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PREFACE

The Financial Stability Review assesses developments in Ghana's financial system, with a focus on policies implemented to mitigate emerging risks to financial stability. This report is segmented into eight chapters; highlights of the broader macroeconomy; the four key sectors of the financial system, namely, the banking, insurance, pensions, and securities industries; the resilience of the financial sector and a special feature section that highlights topical issues of relevance to financial stability. In this edition, the special feature focuses on emerging trends and key developments in the deposit insurance sector, collateral registry, payments and fintech sector, and Ghana's AML/CFT regime.

The publication of this report aims to promote market transparency and public awareness of the state of the financial system, and highlights policies implemented to safeguard financial stability in Ghana.

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Abbreviations

AEO	African Economic Outlook
AML	Anti-Money Laundering
AUM	Asset Under Management
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Plan
BMA	Business Model Analysis
BNSSS	Basic National Social Security Scheme
BoG	Bank of Ghana
BSSI	Banking Sector Soundness Index
CADeF	Commodity Aggregation Development Fund
CAR	Capital Adequacy Ratio
CEF	Cyber-Enabled Fraud
CFT	Combating the Financing of Terrorism
CIS	Collective Investment Scheme
CISD	Cyber and Information Security Directive
CMMP	Capital Market Master Plan
CSA	Cyber Security Authority
CSD	Central Securities Depository
CSM	Contractual Service Margin
DDEP	Domestic Debt Exchange Program
DEMIs	Dedicated Electronic Money Issues
ECF	Extended Credit Facility
ECL	Expected Credit loss
EMDEs	Emerging Market and Developing Economies
EMMOU	Enhanced Multilateral Memorandum of Understanding
EOCO	Economic and Organised Crime Office
ESG	Environmental, Social and Governance
FATF	Financial Action Task Force
FATF	Financial Action Task Force
FDIC	Federal Deposit Insurance Corporation
FIC	Financial Intelligence Centre
FICSOC	Financial Industry Command Security Operations Centre
FIs	Financial Institutions
FMCG	Fast Moving Consumer Goods
FSC	Financial Stability Council
FSIs	Financial Soundness Indicators
GAIN	Global Actuarial Initiative
GASS	GCX Aggregation Support Scheme
GCX	Ghana Commodities Exchange
GDP	Gross Domestic Product
GDPC	Ghana Deposit Protection Corporation
GFIM	Ghana Fixed Income Market
GFSF	Ghana Financial Stability Fund
GFSR	Global Financial Stability Report
GhIPSS	Ghana Interbank Payment and Settlement System
GHIPSS	Ghana Interbank Payment Settlement System
GIR	Gross International Reserve
GIS	Ghana Interbank Settlement
GISI	Ghana Investment and Securities Institute
GoG	Government of Ghana
GSE	Ghana Stock Exchange
GSE-CI	Ghana Stock Exchange Composite Index

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GSE-FSI	GSE Financial Sector Index
HHI	Herfindahl- Hirschman Index
HTM	Held To Maturity
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
ISSB	International Sustainability Standards Board
KYC	Know Your Customer
LIC	Low Income Countries
MCRs	Minimum Capital Requirements
ML	Money Laundering
ML	Money Laundering
MMOU	Multilateral Memorandum of Understanding
MOF	Ministry of Finance
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MT	Metric Ton
MTM	Mark to Market
MTOs	Money Transfer Organisations
NIC	National Insurance Commission
NOP	Net Open Position
NPLs	Non-Performing Loans
NPOs	Non-Profit Organisations
NPRA	National Pensions Regulatory Authority
OLEM	Other Loans Especially Mentioned
PDs	Primary Dealers
PFMI	Principles for Financial Market Infrastructures
PSPs	Payment Service Providers
RBC	Risk-based Capital
RBS	Risk-Based Supervision
RBSS	Risk-Based Supervision Software
RCP	Regulatory Compliance Portal
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
SBFN	Sustainable Banking and Finance Network
SD	Standard Deviation
SDIs	Specialised Deposit-Taking Institutions
SEC	Securities and Exchange Commission
SIGA	State Interest and Governance Authority
SOEs	State-Owned Enterprises
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
WGs	Working Groups

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Foreword

This edition of the Financial Stability Review (FSR) reflects the nascent recovery in 2023, from a very challenging macroeconomic environment in 2022 which was characterised by slowed economic growth, elevated inflation, a high rate of depreciation of the domestic currency, and the evolving impact of the Government's Domestic Debt Exchange Programme (DDEP) on the financial sector. In 2023, the global economy remained resilient specifically in the second half of the year, supported by a substantial increase in aggregate demand and resilient labour markets. Globally, inflationary pressures also eased substantially, driven by declines in energy and goods inflation which fell below the historical average.

According to the IMF's Global Financial Stability Report (GFSR, April 2024), near-term downside risks moderated with increased expectations for a global economic soft landing, and continued progress on the disinflation path. These developments created an environment for households and businesses to obtain financing at lower costs, despite the relatively high interest rates that have remained sticky downward. That notwithstanding, the GFSR indicated that there remained several salient risks to the stability of the global financial system. These include high level of private and public debt in advanced and emerging market economies which could adversely impact growth; the downturn in segments of China's property market with spillover implications for the bond market; and the rising levels of cyber-attack which continued to be a macro-financial stability issue given the inadequate cyber legislations and regulatory frameworks, particularly in emerging markets and developing economies.

In Africa, economic growth was higher than projected in 2023, reflecting the region's resilience in the face of significant structural challenges and severe shocks, including climate impacts on agricultural and energy production as well as pockets of political instability. These developments caused Africa's real GDP growth to slow to 3.1 per cent in 2023, from 4.1 per cent in 2022. The growth outlook is, however, positive, with growth expected to reach 3.7 per cent and 4.3 per cent in 2024 and 2025 respectively, supported by expected improvements in global economic conditions and effective policy measures. Despite this positive outlook, the IMF's Regional Economic Outlook for Sub-Saharan Africa (REO SSA, APRIL 2024) notes that governments in the sub-region were challenged by financing shortages, increasing cost of borrowing, and constrained local resource mobilisation. Given this funding squeeze, fiscal and monetary authorities need to implement reforms that focus on increasing domestic revenue mobilization with minimal adverse impact on lives and livelihoods; implementing structural reforms and industrialization to diversify both the funding sources and the economies; and maintaining price stability to insulate the region against headwinds and tail events.

Domestically, macro-economic vulnerabilities declined in 2023 making the domestic macroeconomic environment less prone to risks relative to the previous year. Growth prospects improved, inflation declined significantly, and public debt levels decreased slightly. The financial system witnessed a strong rebound from the impact of the DDEP, following the timely coordinated intervention policies by the financial sector regulators and the Ministry of Finance. The outcome reflected the relatively improved macroeconomic environment bolstering confidence in the stability of the Ghanaian financial ecosystem. The assets of the financial system registered strong growth in 2023, despite significant impairments booked amid the debt restructuring. Notwithstanding the positive performance in 2023, some challenges persist, particularly the risks from

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rising non-performing loans coupled with weak credit growth from the banking sector remained a source of concern.

To sustain the emerging macroeconomic recovery given these lingering challenges, the Bank of Ghana maintained a tight monetary policy stance in 2023, aimed at driving down inflation to its medium-term target. The regulators in the financial sector also committed to maintaining the regulatory reliefs instituted in 2022 as needed and avoiding precipitous unwinding till the recovery of the financial system is well established. In addition, a capital restoration policy was set in motion to restore lost capital and to ensure that the financial system builds enough buffers over time to withstand shocks, whilst ensuring sound corporate governance and enhanced credit underwriting practices. Financial sector regulators continue to assess and monitor the effects of the domestic debt exchange on their respective sectors with the view to taking prompt and decisive actions to avert any relapse.

In respect of the three-year Extended Credit Facility (ECF) approved by the IMF in May 2023 for Ghana, the approval was immediately followed by the receipt of the first tranche of US$ 600 million from the IMF under the program. Subsequently, the program underwent a successful review.

In 2023, financial sector regulators effectively worked with the Ministry of Finance to develop the Financial Sector Strengthening Strategy (FSSS) and operationalise the Ghana Financial Stability Fund (GFSF). The FSSS details policies aimed at rebuilding financial institutions' buffers, orderly exit from temporary regulatory forbearance and reinforcing long-term financial stability. The operationalisation of the GFSF by the Government, with the support of the World Bank Group, as an additional safety net, is to act as a solvency backstop for banks and provide solvency and liquidity support for the non-bank financial sector. This has so far helped in cushioning the financial sector from the full impact of the DDEP.

In the outlook, members of the Financial Stability Council (FSC) will continue to work together under the umbrella of the FSC to foster policy coordination among member institutions and to promote enduring financial stability. While the Eurobond restructuring is expected to impact the financial sector further, regulators are assessing its impact and will take additional measures, if necessary to ensure that financial stability is sustained.

I wish to thank all Council members, the Technical Committee (TC), and the Working Group (WG) members for the continuous support and dedication. Since the establishment of the FSC in the past six years, the Council, TC, and WG members have been very cooperative, more so during very challenging times in the last few years since the pandemic. I also take this opportunity to thank the FSC Secretariat for their invaluable service in coordinating the activities of the FSC throughout the year.

Dr. Ernest K. Y. Addison
Chairman of the Council

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The Financial Stability Council

The Financial Stability Council (FSC) comprises Bank of Ghana (BOG), Securities and Exchange Commission (SEC), National Insurance Commission (NIC), National Pensions Regulatory Authority (NPRA), Ministry of Finance (MOF) and Ghana Deposit Protection Corporation (GDPC). It is an inter-agency consultative coordination body responsible for strengthening and reinforcing the stability of the financial sector.[1]

Structure of the Financial Stability Council

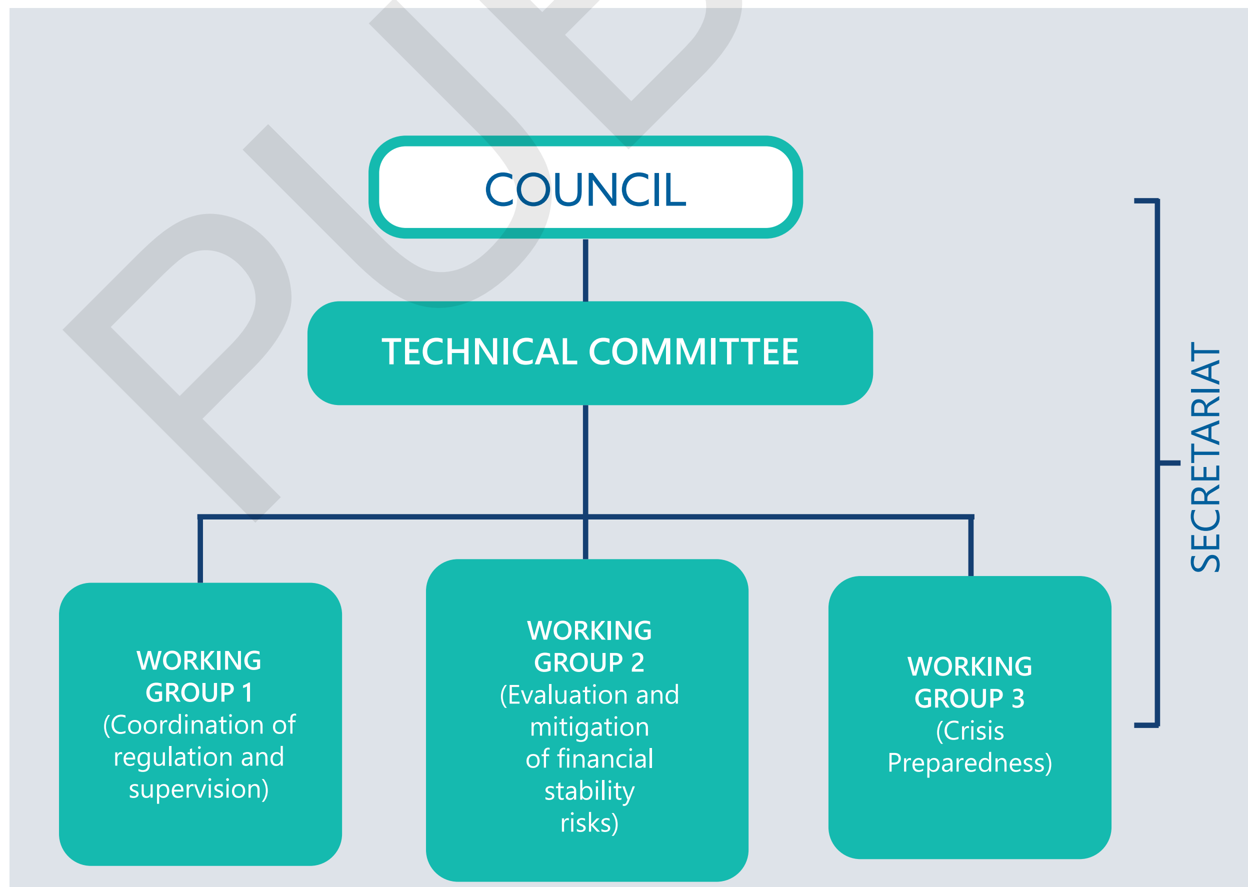
The FSC's work programme is centred around three distinct pillars: coordination of regulation and supervision at the micro-level; evaluation and mitigation of financial stability risks at the macro level; and crisis preparedness. The focus of each pillar is as follows:

Pillar I: The Coordination of regulation and supervision at the micro-level pillar focuses on matters of common concern for the various financial regulators involved in the regulation and supervision of financial entities in Ghana (Working Group 1).

Pillar II: The evaluation and mitigation of financial stability risks pillar focuses on the timely detection and mitigation of risks to the stability of Ghana's financial system at the macro level (Working Group 2).

Pillar III: The crisis preparedness pillar focuses on assessing the legal and regulatory framework for resolution, procedures and training on crisis preparedness, and crisis simulation exercises (Working Group 3).

The Working Groups report to the Technical Committee (TC), which coordinates the development of their work programmes, in line with the priorities set by the High-Level Council. The High-Level Council comprises the Governor of Bank of Ghana, who is the chairperson, the Deputy Governor of Bank of Ghana in charge of Financial Stability and Banking Supervision, the Minister of State at the Ministry of Finance, the Director General of the Securities and Exchange Commission, the Commissioner of the National Insurance Commission, and the CEOs of the National Pensions Regulatory Authority, and the Ghana Deposit Protection Corporation.



1The Financial Intelligence Centre (FIC) participates in the activities of the FSC at the level of the Technical Committee.

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Members of the Financial Stability Council

Dr. Ernest K. Y. Addison
Governor, BoG (Chairman)

Mrs. Elsie Addo Awadzi
Second Deputy Governor, BOG

Hon. Dr. Mohammed Amin Adam
Minister of Finance, MOF[1]

Rev. Daniel Ogbarmey Tetteh
Director-General, SEC

Mr. Michael K. Andoh
Commissioner, NIC[2]

Mr. Hayford Attah Krufi
Chief Executive Officer, NPRA

Mrs. Pearl Esua-Mensah
Chief Executive Officer, GDPC

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[1]Hon. Dr. Mohammed Amin Adam, served as a member of the FSC in 2023 in his capacity as the then Minister of State at the Finance Ministry.
[2]Mr. Michael K. Andoh took over from Dr. Justice Ofori as Commissioner of the National Insurance Commission in April 2023.

Technical Committee Members

Mr. Paul Ababio, SEC (Chair)
Ms. Stella Jonah, NIC
Mr. Paul Ababio, SEC
Dr. Jacob B. Aidoo, SEC
Mr. Seth Nana Amoako, FIC

Ms. Lucy Abebrese, FIC
Mr. John K. Mbroh, NPRA
Mr. Yaw Sapong, BoG
Mr. Osei Gyasi, BoG
Dr. Kwasi Osei-Yeboah, BoG

Dr. Settor Amediku, BoG
Mr. Wonder Adetor, MoF
Mr. Andrew Ameckson, MoF
Mr. Emmanuel Asare, GDPC
Mr. Kwesi Attobrah, GDPC

Working Group Commitee Members

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Mr. Owusu Ankoma, BOG (Chair)
Mr. Mohammed Hafiz Issahaku, NIC
Mr. Hayford Amankwah, NPRA
Ms. Evelyn Essien, SEC
Mr. Seidu Issifu, BoG
Mrs. Adeline Ocran, BoG
Mr. Robert Otoo Duodu, BoG

Working Group 2

Mr. Emmanuel Mensah-Appiah, SEC,(Chair)
Mr. Maxwell Anim Frimpong, NIC
Mr. Kwame O. Kissiedu, NPRA
Mr. Prosper Awuni, MoF
Ms. Doreen Asare, BoG
Mr. Emmanuel O. Ansu-Gyeabour, BoG
Ms. Adela Pokuah Baniako, GDPC
Mr. Alexander Frempong, BoG

Working Group 3

Mrs. Patience Arko-Boham,MoF (Chair)
Ms. Rita Apau, NIC
Mr. Caliis Nii Oman Badoo, SEC
Mr. Mawuko Gbekor, BoG
Mr. Travis Fordjour, NPRA
Mr. John Sika, GDPC
Ms. Sheila E. D. Gockel, BoG

Secretariat

Dr. Kwasi Osei-Yeboah (Head)
Dr. John Kwame Dadzie
Dr. Emmanuel Owusu-Afriyie
Mr. Gershon Kojo P. Incoom
Mr. Mawuli K. Woanyah

Dr. Mrs. Barbara Oku
Mr. Robert Otoo Duodu
Ms. Eugenia Otchere
Ms. Sheila E. D. Gockel
Ms. Doreen Asare

Mr. Felix Abroquah Besseah
Mr. Emmanuel O. Ansu-Gyeabour
Mr. Abdul Wahab Amadu
Mr. Kwadwo Gyima-Larbi
Mr. Richardson Arthur

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Executive Summary

In 2023, global real GDP growth decelerated to 3.3 per cent, continuing its downward trajectory from the previous year's 3.5 per cent. This slowdown was driven by weak labour markets, reduced savings, restrictive trade policies, and the lagged effects of monetary policy tightening, despite the easing inflationary pressures in recent times. These challenges are expected to persist through 2024, dropping global real GDP further to 3.2 per cent, before rising modestly to 3.3 per cent in 2025. Economic growth in 2023 exhibited variations across different regions in response to the divergent fiscal policies adopted. However, the anticipated global tightening in 2024 is expected to rebuild budgetary space and address growing concerns about debt sustainability. Meanwhile, supply chain disruptions have normalized, providing some relief to the global economy.

Ghana's domestic economy witnessed a moderation in GDP growth to 2.9 per cent in 2023, from 3.1 per cent in 2022, but exceeded the projected target of 2.3 per cent. This occurred despite the lingering effects of the DDEP and the implementation of stringent monetary policies which markedly drove inflation down from 54.1 per cent in December 2022 to 23.2 per cent in December 2023. The sluggish GDP growth could be attributed to a slowdown in domestic demand, weak access to credit, fiscal consolidation measures, and tight global financing conditions.
Generally, risks to Ghana's financial system from the domestic macroeconomic environment decreased, driven by stronger growth than projected, declining inflation, and reduced public debt levels, reflecting fiscal consolidation efforts. The year 2023 witnessed the full implementation of the Phase 2 Domestic Debt Exchange Program (DDEP) announced in December 2022. This was part of measures aimed at restoring debt sustainability and macroeconomic stability. Phase I which involved the restructuring of local currency GoG bonds adversely impacted the financial sector. This was reflected in the significant impairment losses, lower profitability, and reduced solvency ratios. Phase 2, however, reflected minimal impact as a result of the lower level of holdings of the restructured Cocoa Bills and locally issued USD-denominated bonds.

In 2023, the banking industry experienced significant asset growth, increasing by 29.7 per cent to GH₵ 274.92 billion, mainly driven by fresh deposits. Despite this growth, assets as a share of GDP declined due to slower nominal GDP growth. The banking industry also remained solvent, although key capital indicators like CAR and Tier 1 CAR declined due to impairment losses and rising NPLs, which increased from 16.6 per cent to 20.6 per cent. Though asset quality deteriorated, efficiency improved, with better interest margins and lower non-interest expenses leading to a rebound in profitability, with ROE rising from -25.5 per cent to 34.2 per cent, and ROA from -3.83 per cent to 5.4 per cent year-on-year. Liquidity remained strong, with broad liquid assets to total assets increasing to 65.7 per cent. Overall, the banking industry's soundness improved, bolstered by the DDEP relief measures, but vulnerabilities, due to elevated NPLs and lower capital levels persist.

Amidst global challenges including COVID-19, geopolitical tensions, and the Domestic Debt Exchange Program, the Ghanaian insurance industry has demonstrated notable resilience and is set for progressive growth. This is evidenced by the 24 per cent and 23.4 per cent growth in equity and assets recorded in 2023 respectively. Strengthened regulation, increased digitalization, and the rise of InsurTech firms, supported by the NIC's efforts, have reinforced the industry. The NIC remains confident in the industry's stability and future growth.

In 2023, Ghana's securities industry improved due to relatively stable macroeconomic conditions, characterized by disinflation, and a build-up in foreign exchange reserves. This improvement was noted across the equities, debt and asset management segments, with the Ghana Stock Exchange Composite Index (GSE-CI), fixed income market and asset management segments recording a 28 per cent annual return, 151 per cent rise in debt instruments, and 38 per cent growth in AUM respectively. These achievements were supported by market resilience through infrastructure stability and initiatives like Commodity Aggregation Development Fund (CADeF) and GCX Aggregation Support Scheme (GASS).

The Ghanaian pensions industry in 2023 saw a significant 33 per cent increase in Assets Under Management (AUM), reaching GH₵61.8 billion, up

from GH₵46.6 billion in 2022. This growth, which surpasses the 20 per cent rise seen in the previous year, is attributed to increased enforcement against employers defaulting on the payment of tier 2 pension contributions, higher enrolment and contributions, and partial government redemption of contribution arrears. Private pension funds drove this expansion with a 32 per cent increase, totalling GH₵46.5 billion. The Basic National Social Security Scheme (BNSSS) also saw a 26.3 per cent growth in AUM, reaching GH₵15.30 billion. However, the scheme continues to face risks from private and public sector indebtedness, rising benefit payouts, and low real investment returns.

Generally, Ghana's financial system is bouncing back and demonstrated decent growth despite facing macroeconomic challenges. Key sectors, including banking, insurance, and securities, showed improved performance driven by strong regulatory frameworks, digitalization, and investor confidence. The overall financial system benefited from increased profitability, enhanced capital adequacy, and substantial growth in assets under management, highlighting its ability to adapt and thrive amidst economic fluctuations.

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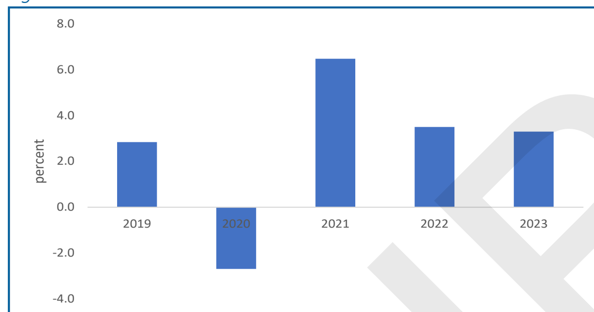
01 Macro-Financial Developments

1.1 Global Macroeconomic Developments

Global real GDP growth slowed in 2023. Global growth dropped to 3.3 per cent in 2023 and is expected to drop marginally to 3.2 per cent in 2024 before rising modestly to 3.3 per cent in 2025. The decline in global growth was driven by reduced savings buffers, the ongoing post-pandemic shift in spending from goods to services, restrictive trade policies, and the lagged impact of monetary tightening and fiscal consolidation. Without corrective action, global growth will remain well below potential for the remainder of the 2020s.

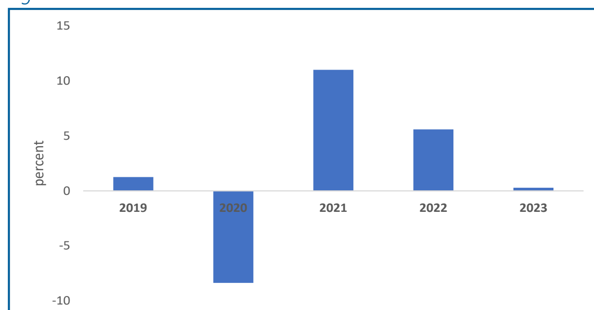
Figure 1.1: Global Growth



Source: IMF World Economic Outlook, July 2024

Global Trade slowed in the year under review. Global trade growth in goods and services was nearly flat in 2023, with goods trade declining amid weak global industrial output. This development reflects reductions in trades in key advanced economies, Emerging Markets and Developing Economies (EMDEs), and a significant slowdown in global industrial production growth. The services trade continued to recover from the pandemic's impact, but at a slower rate than predicted. Global trade growth is projected to recover to about 3.25 per cent annually in 2024–25, driven by improved demand for goods and advanced-economy trade, mirroring projected global output growth.

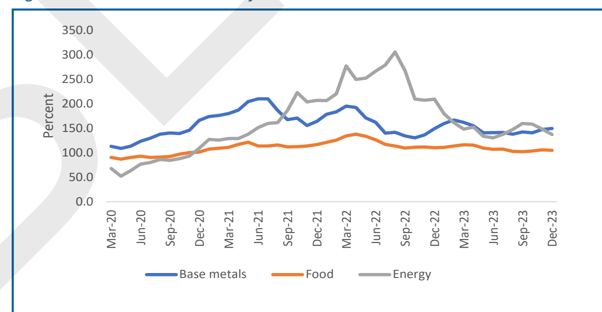
Figure 1.2: Global Trade Growth



Source: IMF World Economic Outlook, July 2024

The average prices of most commodities eased, by varying degrees, in the year under review amid moderating demand. Crude oil prices were less volatile in 2023 but eased year-on-year, particularly after the Middle East conflict, averaging $83/bbl, down from $100/bbl in 2022. Natural gas and coal prices fell significantly as European countries cut energy consumption while keeping gas stockpiles over 90 per cent of storage capacity. Metal prices declined by 10 per cent due to slow demand from major countries, particularly China, which accounts for 60 per cent of total metal consumption. Food prices, the largest component of the agriculture price index, decreased by 9 per cent in 2023, suggesting an abundant supply of major commodities, notably grains. However, these prices remained 40 per cent higher than the pre-pandemic levels.

Figure 1.3: Global Commodity Prices



Source: IMF World Economic Outlook, April 2024

Inflationary pressures eased throughout the review year in almost all economies. Global headline consumer price inflation fell significantly in 2023. Moderating energy and food price inflation, along with weakening consumer demand and the recovery of global supply networks supported the disinflationary process. Nonetheless, inflation remains above target in most industrialized economies and EMDEs. Core inflation, on the other hand, has been more persistent, particularly in advanced economies with tight labour markets conditions. In most EMDEs, headline and core inflation fell as growth slowed. However, in countries under financial distress, inflation remained high amidst currency depreciation. Going forward, central banks must remain determined in their fight against inflation until there is tangible evidence of inflation moving sustainably toward targets. The stance of monetary policy should reflect a country-specific pace of economic recovery and disinflationary processes.

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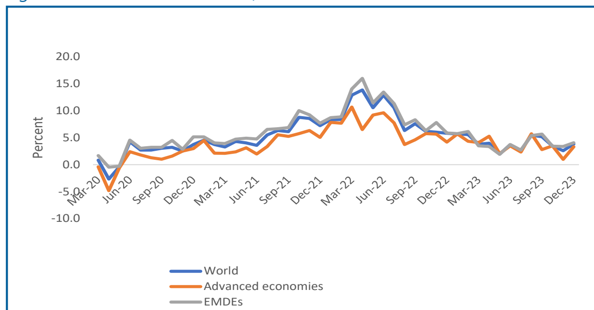
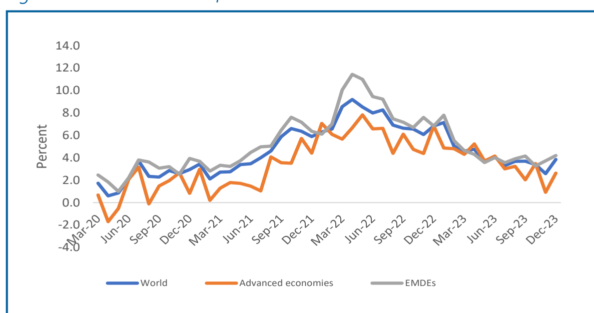
Figure 1.4: Global Headline Inflation



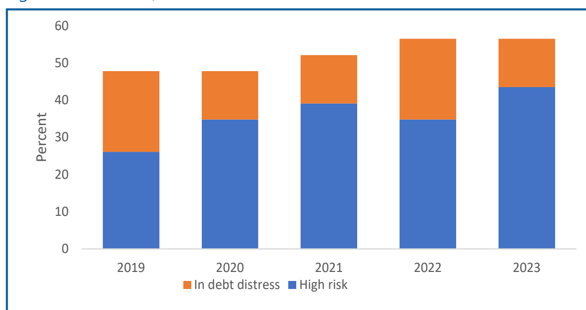
Source: IMF World Economic Outlook, April 2024

Figure 1.5: Global Core Inflation



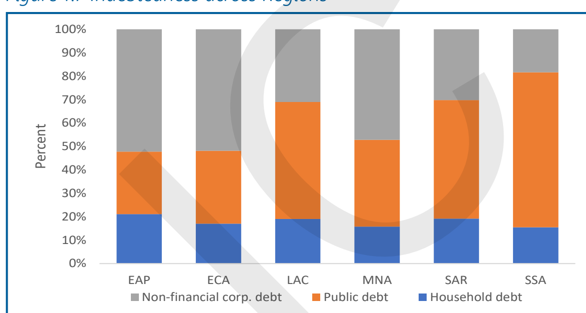
Source: IMF World Economic Outlook, April 2024

Figure 1.6: Risks of Debt Distress in LICs



Source: World Bank Global Economic Prospects, January 2024

Figure 1.7 Indebtedness across Regions



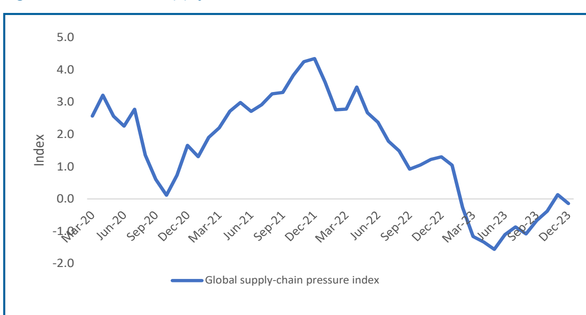
Source: World Bank Global Economic Prospects, January 2024

Fiscal policies varied across different regions with implications for growth. Governments in advanced economies relaxed fiscal policies in 2023. In EMDEs, where output has fallen even farther below pre-pandemic levels, the fiscal stance is estimated to have been neutral. In low-income countries, liquidity constraints and the increased cost of interest payments—averaging 13 per cent of general government revenues—have crowded out critical investments, impeding the recovery of huge output losses relative to pre-pandemic levels. In 2024, fiscal policy is expected to tighten in various advanced, emerging markets, and developing countries to rebuild budgetary space to curb the growing trend of debt. This shift is expected to hamper GDP growth in the short term.

Sovereign debt levels have soared, raising concerns about debt sustainability in many countries. Over the last decade, overall indebtedness has increased in all regions, driven by rising public and private debt. Worsening global financial conditions have made debt repayment even more difficult. Rising debt servicing costs and delayed progress in debt restructuring may worsen the challenges faced by many EMDEs. Approximately 25 per cent of EMDEs are considered to be at high risk of debt distress, while approximately 43.5 per cent of low-income developing countries are projected to be either in debt distress or at high risk of debt distress. With budget deficits expected to tighten in several EMDEs by 2024 there will be major reduction in public debt pressures.

Global supply chain disruptions eased remarkably returning to pre-pandemic levels in 2023. The pandemic's disruption to supply chains has largely normalized, with shipping prices and supplier delivery times returning to pre-pandemic levels (see figure 1.8). Also, as supply chain disruptions decrease, policy tightening is gradually rebalancing aggregate demand towards potential production, further contributing to the fall in headline inflation in many countries.

Figure 1.8: Global Supply Chain Pressures Index



Source: IMF World Economic Outlook, April 2024

1.2 Developments in Global Financial Stability Risks

Global macro-financial stability risks moderated in 2023, in tandem with declines in global inflation. Heightened risks in the global financial system, marked by high interest rates during the monetary tightening cycle, was largely contained in 2023. This was evidenced by the resilience of financial and external sectors in major emerging markets throughout the interest rate upswing.

The global financial system remained resilient amid the temporary banking system turmoil in 2023. Bank failures in Switzerland and the United States did not spread to other parts of the global financial system. This was because banking systems in many countries prudently maintained high capital buffers and provisions for expected defaults, which seemed adequate to cover nonperforming loans. In addition, some countries implemented extensive public support measures aimed at lessening the impact of the stress. These included the activation of FX swap lines, large central bank liquidity provision to banks, government backstops and guarantees, and, in certain situations, the extension of deposit guarantee schemes.

Real estate prices declined globally in real terms. This decline mirrored rising interest rates and structural changes after the COVID-19 pandemic, with the US and European office sectors having seen the largest declines. Residential home prices continued to adjust downward in most countries but generally remained above pre-pandemic levels. Declines in real house prices were driven by higher mortgage rates and were more pronounced in advanced economies than in emerging markets. Continued vigilance is warranted in monitoring vulnerabilities in the commercial real estate sector to minimize potential risks to bank and non-bank lenders.

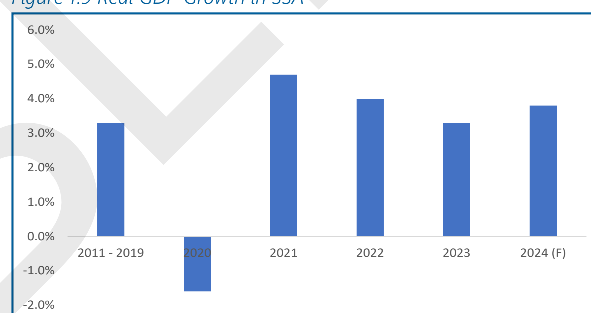
Global corporate bonds rallied with spreads narrowing below long-term averages, particularly in the high-yield segment. By sector, spreads outperformed the most in the consumer cyclical and technology sectors on a year-to-date basis, in line with equity performance in these sectors. The strong performance reflects strength in the household and artificial intelligence related sectors. However, narrower spreads did not translate into cheaper corporate funding costs, as absolute yields remained elevated.

Notable progress was made on sovereign debt restructuring in four of eight countries that were in default. In Ghana, the official creditor committee provided financing assurances and committed to restructuring the country's bilateral debt, while government authorities made further progress on restructuring its domestic debt. Sri Lanka, Suriname and Zambia continued to restructure their debt with domestic and foreign creditors.

1.3 Macroeconomic Developments in Sub-Saharan Africa

Growth declined, for two consecutive years, to 3.4 per cent in 2023, from 4.0 per cent in 2022. The Russia-Ukraine war brought about a spike in inflation figures due to higher interest rates caused by the war globally. Sub-Saharan African countries had to grapple with decreases in international demand for goods and services, decline in commodity prices, high global interest rates and credit spreads, and currency depreciation. The combined effects created a severe funding gap for a region that continues to battle with the scars of the COVID-19 pandemic. These developments were largely responsible for the observed decline in growth. However, growth is expected to rebound to 3.8 per cent in 2024 due to an expected rebound in growth of oil exporting countries, apart from Nigeria. The oil exporters are projected to grow by 3.1 per cent. The expected growth, however, is projected to be uneven across country groups within the region.

Figure 1.9 Real GDP Growth in SSA



Source: IMF SSA Regional Economic Outlook, April 2024

Economic activity slowed in some resource-rich countries in the region. Generally, declining prices in metals had a significant downward impact on growth in many metal-exporting economies including the Democratic Republic of Congo, Liberia, Sierra Leone, and Zambia. In Botswana, falling prices coupled with the reduction in global demand for diamonds led to a deceleration in growth. Namibia also experienced marginal growth because of the decline in mining output and the implementation of contractionary monetary policy. In Niger, there was a sharp decline in growth after the July coup which attracted economic and financial sanctions. Metal exporters are, however, expected to witness an increase in growth in 2024. Over the years, oil production declined in Angola and Nigeria, both major oil exporters of crude oil, however in 2023, Nigeria recorded an increase in oil production and projects a further boost in oil production.

The fiscal deficit in Sub-Saharan Africa narrowed moderately to 4.1 per cent in the year 2023. Fiscal

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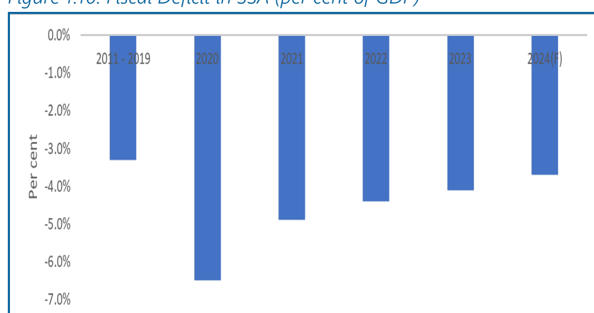
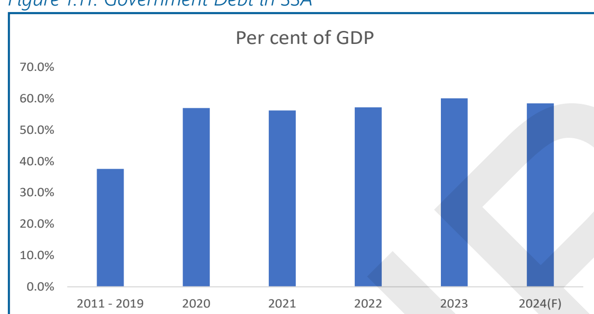
deficit continued to maintain a steady decline from 6.5 per cent in 2020 to 4.1 per cent in 2023 and is expected to further improve to 3.7 per cent in 2024 (see figure 1.10). Public debt levels in the region increased to 60.1 per cent in 2023, from 57.2 per cent in 2022 and is projected to decline to 58.5 per cent in 2024 (see figure 1.11). The fiscal adjustment attained so far has been a combination of expenditure cuts alongside revenue growth.

Figure 1.10: Fiscal Deficit in SSA (per cent of GDP)



Source: IMF SSA Regional Economic Outlook, April 2024

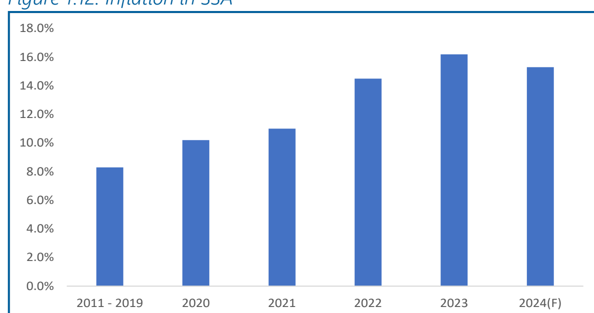
Figure 1.11: Government Debt in SSA



Source: IMF SSA Regional Economic Outlook, April 2024

Inflation in Sub-Saharan Africa remained elevated however, this is expected to decline in 2024. Inflation in the region increased to 16.2 per cent in 2023 from 14.5 per cent in 2022 and is expected to ease to 15.3 per cent in 2024 (see figure 1.12). The increase in inflation was due to the pass-through of sharp local currency depreciations in some countries within the region. It is estimated that about a third of countries in the region are still faced with double-digit inflation. Some relatively large economies in the region continued to experience high inflation, impacting the region's weighted average inflation. Disinflation is, however, expected in line with global trends and the maintenance of tighter monetary policy across the region.

Figure 1.12: Inflation in SSA



Source: IMF SSA Regional Economic Outlook, April 2024

Ensuring Africa's stability and sustained growth requires short-term and medium to long-term policies. Informed monetary and macroprudential policies coupled with prudent fiscal policy will cause inflation to fall at a reasonable cost to the economy in the short term. Renegotiated bilateral debt agreements are necessary to avoid any severe debt crisis. In the medium to long term, Africa must improve domestic revenue mobilization for fiscal sustainability. Regional trade should also be promoted to protect the continent against global trade shocks.

1.4 Developments in Financial Stability Risks in Sub-Saharan Africa[1]

Soundness indicators for most financial institutions indicated continued resilience in emerging and sub-Saharan African markets. Financial and external sectors in these markets proved resilient throughout the interest rate upswing. Bank failures in Switzerland and the United States in March 2023 did not spread to other parts of the global financial system, including Sub-Saharan Africa.

Residential home prices declined by 1.6 per cent in emerging and sub-Saharan African markets but generally remained above pre-pandemic levels. Declines in real house prices have been driven by lower demand for residential homes due to higher mortgage rates. However, household debt sustainability ratios have been at modest levels, and a surge in residential mortgage defaults remains a tail risk.

Volatility declined to multiyear lows for most asset classes, likely reflecting increased optimism that the global rate hike cycle is near its end. The average correlation across equities, bonds, credit, and commodity indices in emerging markets exceeded the 90th historical percentile (IMF, Global Financial Stability Report, April 2024). Low volatility masked the fact that financial conditions have become more responsive in this hiking cycle than in past cycles to economic data releases, especially inflation releases. Sizable inflation surprises could abruptly change investor sentiment, rapidly decompressing asset price volatility and causing simultaneous price reversals among correlated markets, thus prompting a sharp tightening in financial conditions.

Corporate credit spreads narrowed although the rise in corporate earnings appeared to be losing momentum in most parts of the world. Cash liquidity buffers for firms in sub-Saharan Africa economies eroded further over 2023, owing to still-high global interest rates. As of the third quarter of 2023, the share of small firms with a cash-to-interest-expense ratio below 1 was more than half in emerging markets.

[1] This section of the report is based on the IMF, Global Financial Stability Report, April 2024.

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Both public and private debt continued to accumulate. This development could exacerbate adverse shocks and worsen downside risks to growth. With central banks having tightened policy aggressively and early, inflation has eased markedly in many emerging markets, allowing some to start their cutting cycles. With interest rates and deficits still high, inflation declining, and growth moderating, more emerging markets are currently experiencing high real refinancing costs relative to economic growth.

The fiscal authorities in low-income countries in Africa have increasingly turned to domestic markets to obtain funding. This has meant that local banking institutions have significantly increased their holdings of sovereign debt, increasing potential risks from a sovereign bank nexus. Should financing conditions tighten again, local markets in these countries could be pressured further.

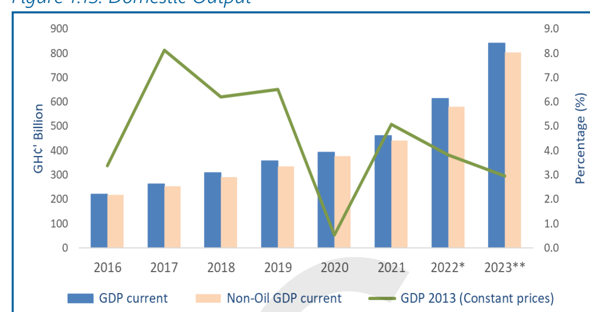
Financial market sentiment has been buoyant on expectations that global disinflation is entering its "last mile" and monetary policy will be easing. This has helped rekindle capital inflows for many emerging markets, and these countries have taken advantage of strong investor risk appetite to issue sovereign bonds after a lengthy hiatus. Across all emerging markets, the estimated likelihood of capital outflows over the next year has declined.

Supervisory and regulatory authorities should use appropriate tools, including stress tests and early corrective action, to ensure that banks and nonbank financial institutions are resilient to strains in commercial and residential real estate and to the deterioration in the credit cycle. Central banks should avoid easing monetary policy prematurely and push back as appropriate against overly optimistic market expectations for policy rate cuts. Sub-Saharan Africa economies should strengthen efforts to contain debt vulnerabilities.

1.5 Domestic Macroeconomic Developments

Growth moderated in 2023 but performed above expectations. GDP grew by 2.9 per cent in 2023, lower than the 3.8 per cent recorded in 2022. However, the 2.9 per cent growth was above the 2.3 per cent projected for 2023. Similarly, non-oil GDP growth slowed to 3.3 per cent in 2023, down from the 4.7 per cent recorded in 2022. The slowdown in domestic demand, weak access to credit, the lingering impact of DDEP, fiscal consolidation measures, and tight global financing conditions contributed to this outturn. From the perspective of sectoral contribution, weak growth in the services sector and contraction in the industry sector contributed to this slowed growth. The slowdown in economic growth could adversely impact the performance of the domestic financial sector through higher default rate.

Figure 1.13: Domestic Output

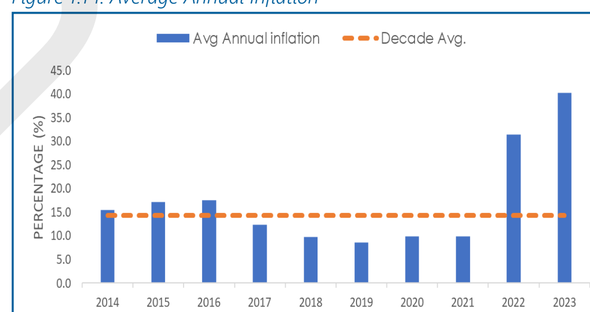


Source: Ghana Statistical Service

The disinflationary process continued through 2023, though inflation remained high. Headline inflation declined from 54.1 per cent in December 2022 to 23.2 per cent in December 2023, reflecting the effects of a tight monetary policy stance and ongoing fiscal consolidation. The decline in headline inflation was broad-based across both food and non-food prices.

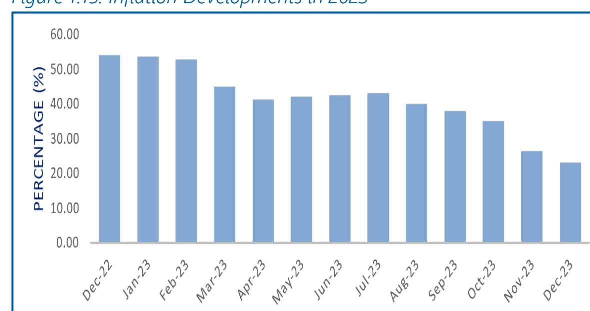
The Bank of Ghana (BoG) responded decisively to counter the generally elevated inflationary pressures. The BoG raised the monetary policy rate by 300 basis points cumulatively to 30.0 per cent by December 2023, from 27.0 per cent in December 2022.

Figure 1.14: Average Annual Inflation



Source: Ghana Statistical Service

Figure 1.15: Inflation Developments in 2023

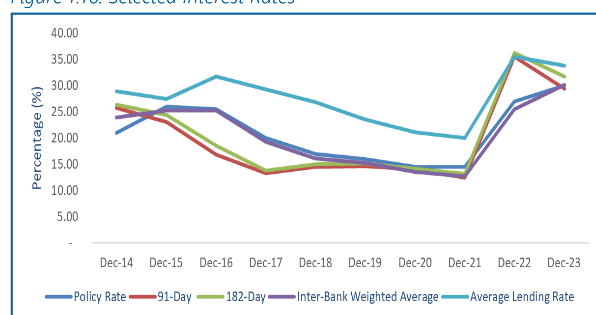


Source: Ghana Statistical Service

In line with the declining inflation environment, interest rates on money market instruments trended downwards across the various maturity profiles in

2023. Rates on the 91-day, 182-day, and 364-day Treasury bills decreased to 29.39 per cent, 31.70 per cent, and 32.97 per cent respectively in 2023, from 35.48 per cent, 36.23 per cent, and 36.06 per cent recorded in 2022. Similarly, the average lending rate decreased to 33.75 per cent in 2023 from 35.58 per cent in 2022. However, the weighted average interbank lending rate increased from 25.51 per cent in 2022 to 30.19 per cent in 2023.

Figure 1.16: Selected Interest Rates



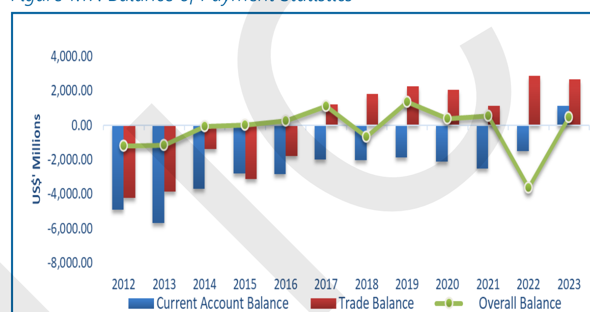
Source: Bank of Ghana

Developments in the commodities market adversely impacted the trade account. The trade balance recorded a lower surplus of US$2.65 billion in 2023, 7.9 per cent lower than the surplus of US$2.87 billion recorded in 2022. The decline in the trade surplus was largely driven by a greater decline in export earnings relative to imports. Total merchandise exports declined by 4.9 per cent to US$16.66 billion in 2023 on account of lower receipts in crude oil, cocoa, and timber exports. However, on the back of increases in volume, gold exports increased by 15.02 per cent in 2023. On the other hand, total merchandise imports decreased by 4.18 per cent to US$14.01 billion in 2023, on account of declines in both oil and gas and non-oil imports.

The current account recorded a surplus in 2023. The current account recorded a surplus of US$1.11 billion in December 2023 compared to a deficit of US$ 1.52 billion in December 2022, indicating the effect of the debt standstill that followed the DDEP programme. The services account showed a net payment of US$3.40 billion, compared to a net payment of US$3.46 billion in 2022. Net income payments in 2023 dropped to US$2.08 billion from US$4.51 billion in 2022. Interest payments on public debt reduced sharply by 89.5 per cent to US$0.17 billion in 2023 from US$1.69 billion in 2022. At the same time, remittance flows grew by 10.1 per cent to US$3.93 billion.

The BOP account improved in the review period, supported by inflows from the IMF programme and other government policies. The balance of payment (BOP) account recorded an overall surplus of US$0.46 billion in 2023 compared to a deficit of US$3.64 billion in 2022. The improvement in the BOP account was driven by lower income payments, lower outflows from the capital account, and higher remittance inflows. Higher remittance inflows and fiscal and monetary policies, including inflows from the gold purchase programme, stepped-up foreign exchange purchases from the mines and oil companies, the inflows from the IMF ECF-supported programme, and lower outflows from the debt standstill supported these developments. However, the renewal of external debt servicing obligations following the agreement on the external debt restructuring could put minimal pressure on the local currency and the BOP account, as this has been provisioned for in the reserves build-up in 2024.

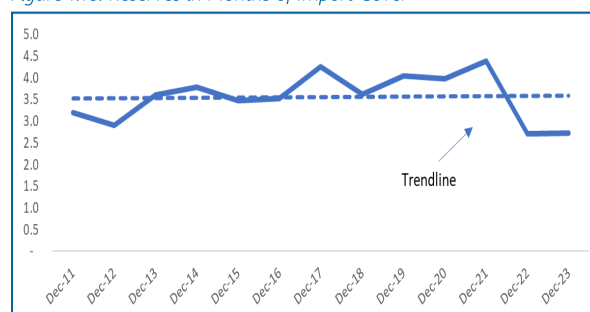
Figure 1.17: Balance of Payment Statistics



Source: Bank of Ghana

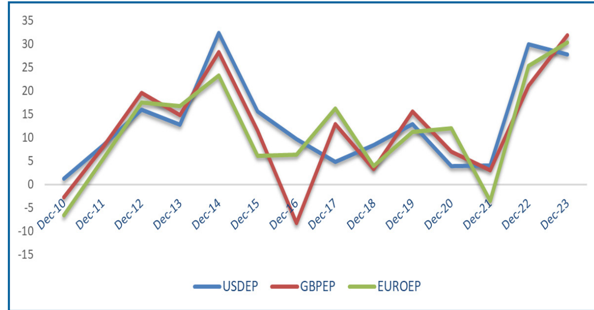
Gross International Reserves remained relatively unchanged in the review period. The Gross International Reserves (GIR) provided 2.72 months of import cover in December 2023, as against the 2.71 months of import cover in 2022(see figure 1.16). The relative stability in the reserve position partly impacted the performance of the local currency in 2023. Cumulatively, the Ghana Cedi depreciated by 27.81 per cent, 31.86 per cent, and 30.33 per cent in 2023 against the US Dollar, British Pound, and the Euro, as compared to the 29.97 per cent, 21.19 per cent, and 25.34 per cent depreciation respectively recorded during the previous year. The pressure on the Ghana Cedi reflects the strengthening of the US dollar in international markets and strong demand pressures on the local market.

Figure 1.18: Reserves in Months of Import Cover



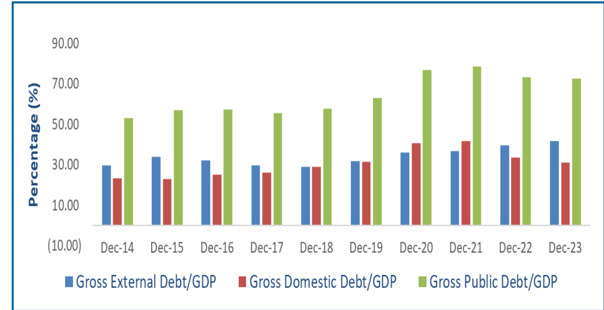
Source: Bank of Ghana

Figure 1.19: Y-o-Y Depreciation Rate (%)



Source: Bank of Ghana   Note: + means depreciation

Figure 1.20: Stock of Public Debt



Source: Ministry of Finance and Bank of Ghana

The public debt declined in 2023 in line with fiscal consolidation efforts and as a result of some savings on the domestic debt exchange as discussed in Box 1.3. The public debt to GDP reduced marginally to 72.50 per cent in 2023, from 73.14 per cent in 2022. Of the total debt stock, domestic debt constituted GH₵259.7 billion (30.9% of GDP), while external debt constituted GH₵240.9 billion (39.5% of GDP).

Box 1.3 - Government of Ghana Debt Exchange Programme

The Government of Ghana launched the second phase of the Domestic Debt Exchange Program (DDEP) on 14th July, 2023.

The DDEP Phase 2, involving the restructuring of Cocoa Bills (GH¢8.1 billion) and locally issued US$-denominated bonds (US$808.99 million) in separate arrangements, was launched on July 14, 2023, with a settlement date of 4th September, 2023.

The financial sector, especially banks held significant levels of these instruments. However, compared to the impact of DDEP Phase 1 on the 2022 audited financials of banks, the Phase 2 had a relatively low impact on the 2023 audited financial performance of banks due to the lower levels of holdings and better restructuring terms. In addition, some impairments had already been booked by banks in 2022 while banks generally reported a strong rebound in financial performance in 2023. In separate arrangements, GoG also negotiated and restructured bond holdings of pension funds totalling GHS30.01 billion in August 2023.

Looking ahead, the external debt restructuring, particularly, the Eurobonds, will have implications for further impairments by banks and other participating financial institutions.

The regulatory reliefs put in place by financial sector regulators, the implementation of recapitalisation plans and the establishment of the Ghana Financial Stability Fund will help mitigate the impact of the GoG debt operation on the financial sector. Additionally, the Financial Sector Strengthening Strategy (FSSS) was developed in 2023 by financial sector regulators to coordinate their policy regulatory intervention in ensuring that risks to the financial system are promptly identified and addressed. On the other hand, the domestic debt restructuring has created some fiscal space for the Government and contributed to lowering the debt to GDP ratio.

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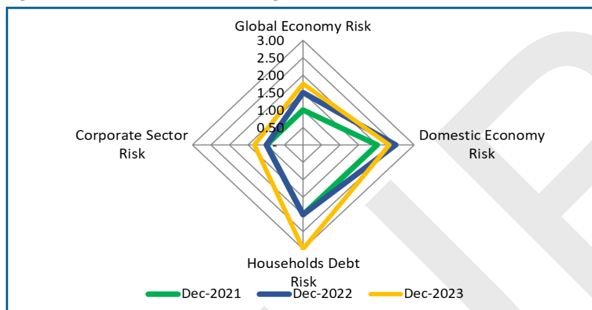
1.6 Developments in Domestic Financial Stability Risks

Risks to the Ghanaian financial system from the domestic macroeconomic environment moderated in 2023. Risks from the domestic macroeconomic environment moderated in 2023 as compared to the risk level observed in 2022, on the back of stronger growth prospects, declining inflation, and waning public debt levels. However, risks from the global macroeconomic environment, corporate, and household sectors remained elevated. The debt-servicing capacity of both household and corporate sectors remained weak in the review period, increasing the risks from these sectors. This is due to the lingering effects of the macroeconomic shocks and the DDEP reflected in reduced real incomes and profits as well as high interest rates. These have also manifested in the increasing NPL of the banking sector. From the global macroeconomic environment, the slowdown in trading partners' growth as well as tight lending conditions posed challenges to the Ghanaian financial system, as shown in Figure 1.21.

Figure 1.21: Ghana: Cobweb Diagram, December: 2021-2023



Source: Bank of Ghana

Note: Movement away from the origin indicates heightening risks.

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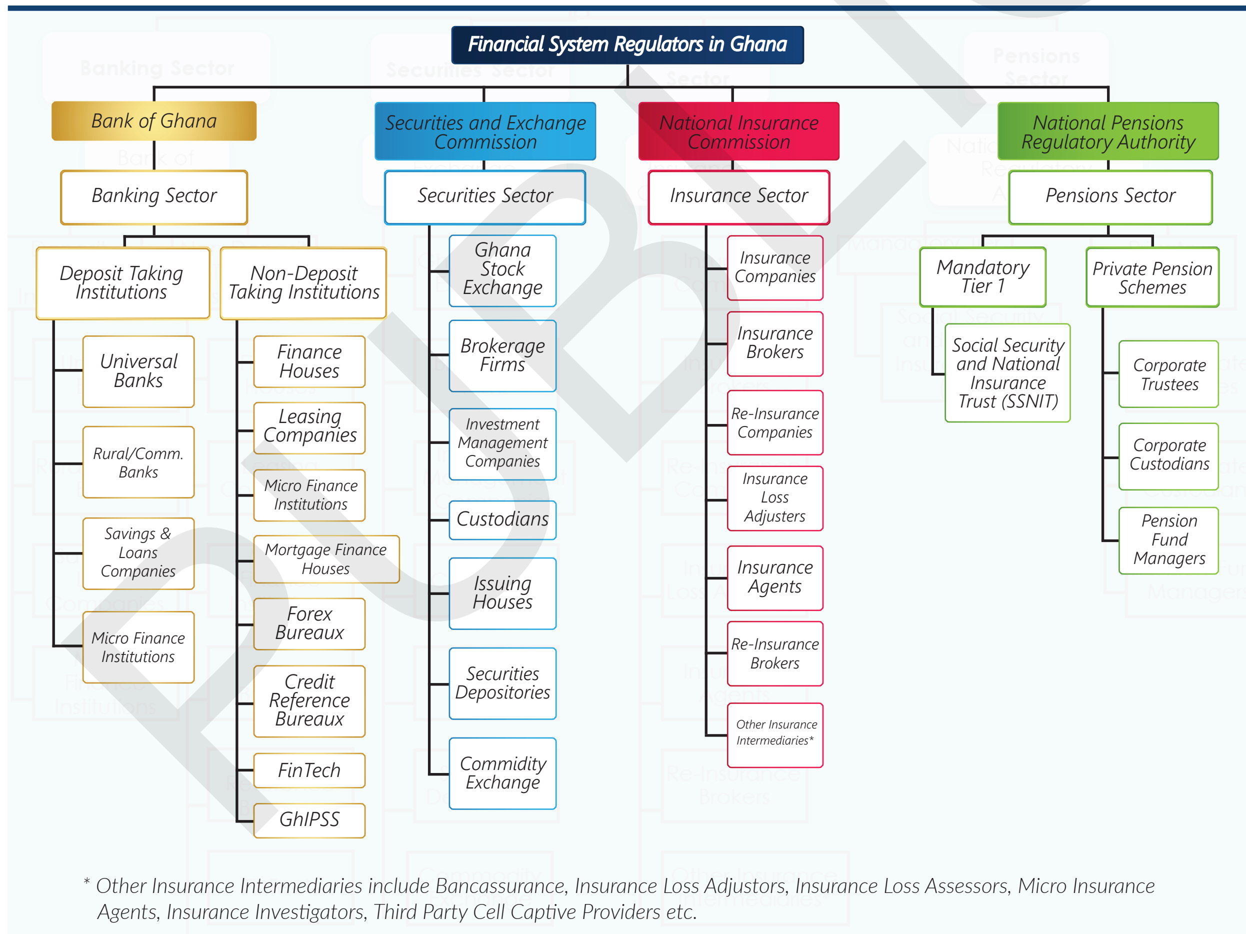
02 Developments in Ghana's Financial System

2.1 The Financial System in Ghana

The financial system of Ghana is regulated and supervised by four distinct regulatory authorities. The banking, pensions, securities, and insurance industries are regulated by the BoG, National Pensions Regulatory Authority (NPRA), Securities and Exchange Commission (SEC), and National Insurance Commission (NIC) respectively. The Financial Stability Advisory Council (FSC) made up of these four regulators, the Ministry of Finance, and the Ghana Deposit Protection Corporation (GDPC) serves as an inter-institutional advisory coordination body responsible for advising the President of Ghana on the following: regulation and supervision of the financial sector, evaluation and mitigation of the risks to the stability of the financial sector, assessment of the country's preparedness to manage crises in the financial sector. Additionally, other information sharing fora exist such as the Committee for Cooperation between the Law Enforcement Agencies and Banking Community (COCLAB), and the Regulators Forum for AML/CFT to promote and enhance coordination within the financial system.

Figure 2.1: Structure of the financial system in Ghana



* Other Insurance Intermediaries include Bancassurance, Insurance Loss Adjustors, Insurance Loss Assessors, Micro Insurance Agents, Insurance Investigators, Third Party Cell Captive Providers etc.

Source: Bank of Ghana

The assets of the financial system maintained strong growth momentum in 2023, despite impairments of assets arising from the debt restructuring. Total financial sector assets grew by 25.30 per cent to reach GH₵390.84 billion in 2023 from GH₵311.93 billion recorded in 2022. Despite the strong growth, the financial system assets to GDP decreased to 46.44 per cent in 2023 from 51.12 per cent in 2022, reflecting the relatively strong nominal GDP growth in 2023. Except for the securities sector, total assets of all other sectors of the financial system increased with the banking, insurance, and pensions sectors growing at 24.13 per

cent, 23.42 per cent, and 41.62 per cent respectively. The strong asset growth reflects the key role of the financial system in mobilizing funds to support the macroeconomic recovery process amid limited access to external financing.

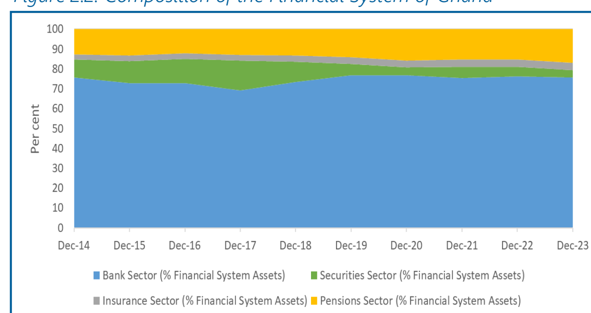
Table 2.1: Assets of the Ghanaian Financial System

INSTITUTIONS	Dec-20	Dec-21	Dec-22	Dec-23
Banking Industry				
Total Assets[3] (GH₵' M)	163,871	196,151	230,644	297,548
Growth Rate (%)	14.7	19.7	17.6	29.0
Asset/GDP (%)	41.8	42.5	37.5	35.4
Share of Financial System Assets (%)	76.8	75.3	75.9	76.3
Securities Industry				
Total Assets Under Management (excluding Pension Funds)-GH₵' M	8,322	14,767	14,367	15,722
Growth Rate-Assets Under Management (excluding Pension Funds)(%)	(19.8)	77.4	(2.7)	9.4
Total Assets Under Management (including Pension Funds)-GH₵' M	30,584	44,487	49,498	55,048
Total Assets (excluding Pension Funds) /GDP (%)	2.1	3.2	2.3	1.9
Share of Financial System Assets (%)	3.9	5.7	4.7	4.0
Insurance Industry				
Total Assets (GH₵' M)	7,693	9,951	12,236	15,103
o/w Life Insurance	4,521	5,807	6,693	8,479
Growth Rate of Total Asset (%)	17.6	29.3	23.0	23.4
Total Assets/GDP (%)	2.0	2.2	2.0	1.8
Share of Financial System Assets (%)	3.6	3.8	4.0	3.9
Pensions Industry				
Total Assets (GH₵' M)	33,460	39,563	46,611	61,795
o/w Public Pension Fund	11,440	11,544	12,106	15,295
Growth Rate of Total Asset (%)	27.2	18.2	17.8	32.6
Total Assets/GDP (%)	8.5	8.6	7.6	7.3
Share of Financial System Assets (%)	15.7	15.2	15.3	15.8
Financial System				
Total Assets (GH₵' M)	213,346	260,432	303,858	390,167
Growth Rate (%)	14.6	22.1	16.7	28.4
Total Assets/GDP (%)	54.4	56.4	49.5	46.4

Source: Bank of Ghana, Securities and Exchange Commission, National Insurance Commission, National Pensions Regulatory Authority

The banking sector continues to dominate the financial system of Ghana in terms of assets. It accounts for more than 70 per cent of the total financial sector assets even though its share has been stable. From Figure 2.2, the share of the insurance sector and securities sector to total financial system assets has fairly been stable for the past five years. The pension sector's assets to total financial sector assets, on the other hand, increased marginally due to significant growth in the private pension funds over the period.

Figure 2.2: Composition of the Financial System of Ghana



Source: Bank of Ghana

[3] This refers to total assets of Banks and SDIs

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Box 2.1 - Activities of the Financial Stability Advisory Council during the Year

The Financial Stability Council (FSC), chaired by the Governor of the Bank of Ghana, Dr. Ernest Addison, held three meetings in 2023. The FSC's work programme centred around the three distinct pillars managed by the Working Groups (WGs): coordination of regulation and supervision at the micro-level; evaluation and' mitigation of financial stability risks at the macro level; and crisis preparedness. Over the year, under the guidance of the FSC Technical Committee, WG1 commenced work on a draft Supervisory Framework for Financial Conglomerates. WG2 conducted studies on emerging risks to enable regulators take appropriate remedial policy actions. WG3 conducted a survey to commence the assessment of the Business Continuity Plans (BCPs) of financial sector regulated institutions.

2.2 Interconnectedness of the Financial System

Exposure of banks to other financial institutions

Total exposure of banks to other financial institutions was approximately GH₵393.67 million at end-December 2023, a decrease from the GH₵847.11 million recorded at end-December 2022. The decrease was mainly driven by a reduction of GH₵372.54 million in bank exposures to the securities sector and the Specialised Deposit-Taking Institutions (SDIs). As of end-December 2023, banks were exposed to SDIs (GH₵184.64 million), securities institutions (GH₵170.49 million), insurance companies (GH₵31.01 million), others[4] (GH₵7.12 million), and pension institutions (GH₵0.41 million). The distribution of banks' exposure suggests that distress in the securities industry and SDI sub-sector will have the most adverse impact on banks.

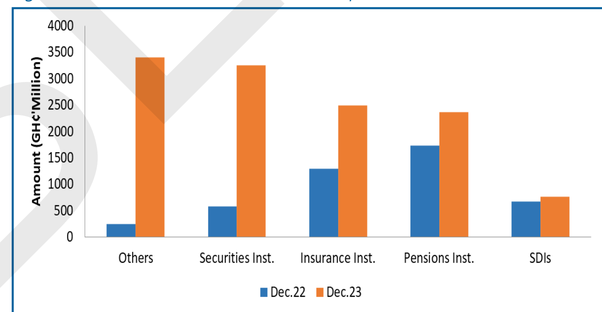
Figure 2.3: Banks' exposure to other financial institutions

Source: Bank of Ghana

Other financial institutions' exposure to banks

Total exposure of other financial institutions to banks as at end-December 2023 was approximately GH₵12.31 billion, compared to the GH₵4.54 billion recorded at end-December 2022. The exposures of other financial institutions to banks were in the form of deposits and investments. The 'Others' category (electronic money issuers, forex bureau, etc) were the most exposed to banks (GH₵3.4 billion), followed by securities institutions (GH₵3.2 billion), insurance companies (GH₵2.5 billion), pensions institutions (GH₵2.4 billion), and SDIs (GH₵0.76 billion) as at end-December 2023. The increase in other financial institutions' exposure to banks was mainly driven by an increase in exposures of the 'Others' category, securities, insurance, and pensions industries. The exposures of the 'Others' category increased from GH₵248.06 million at end-December 2022 to GH₵3.4 billion at end-December 2023. This was because of the expansion of the interconnectedness assessment to cover the electronic money issuers sub-sector. These exposures suggest that distress in banks may adversely impact other financial institutions.

Figure 2.4: Other financial institutions exposure to banks

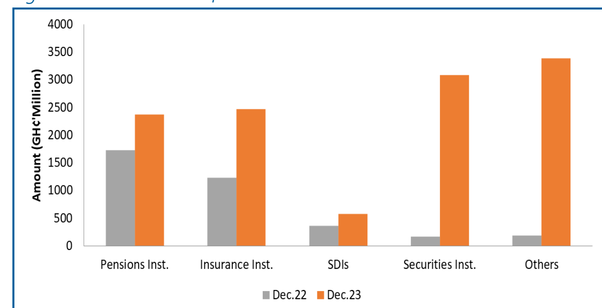


Source: Bank of Ghana

Net claims of other financial institutions on banks

As at end-December 2023, the exposure of other financial institutions[5] to banks on a net claim basis was comparatively higher than banks' exposure to other financial institutions. On a net basis, other financial institutions have an excess of GH₵11.9 billion with banks as at end-December 2023 compared to GH₵3.7 billion at end-December 2022. The net exposure is disaggregated as follows: Others (GH₵3.4 billion); securities institutions (GH₵3.1 billion); insurance institutions (GH₵2.5 billion); pensions institutions (GH₵2.4 billion); and SDIs (GH₵0.58 billion).

Figure 2.5: Net Claims of Other Financial Institutions on Banks



Source: Bank of Ghana

[4]Others consist of electronic money issuers, forex bureau institutions.
[5]Defined as all other regulated financial institutions except banks.

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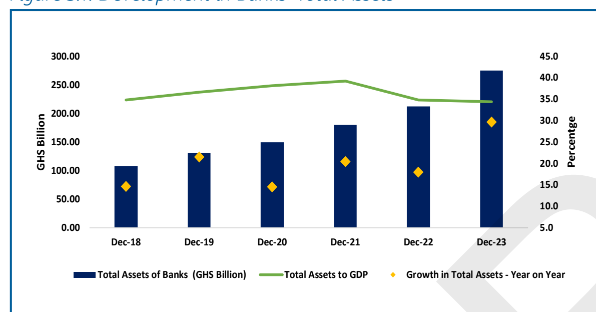
03 Assessment of the Banking Industry

3.1 Performance of the Banking Industry

Assets Development

Annual growth in total assets of banks witnessed a significant increase in 2023. Total assets of banks grew by 29.7 per cent to GH₵274.92[5] billion at end of December 2023 financed mainly by strong growth in deposits. However, banks total assets, as a share of GDP, marginally declined to reflect relatively slower nominal growth in banks' total assets compared to the nominal growth in GDP (see figure 3.1).

Figure 3.1: Development in Banks' Total Assets

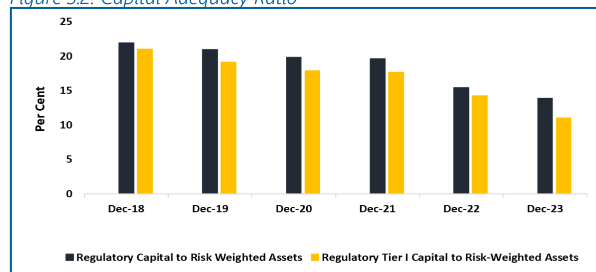


Source: Bank of Ghana

Solvency

The banking industry remained solvent in 2023. The key capital indicators declined in 2023, however, these indicators remained above their respective regulatory thresholds. The decline reflected impairment losses from the DDEP Phase 2 and a sustained increase in non-performing loans. As at end-December 2023, CAR and Tier 1 CAR stood at 13.9 per cent and 11.0 per cent, respectively down from 15.44[6] per cent and 14.3 per cent recorded in 2022. Although CAR remains above the required threshold, the rising NPLs constitute key threats to solvency in the banking industry. However, over the near to the medium-term horizon, recapitalisation of undercapitalised banks, improvement in earnings, sound credit risk management, and favourable economic prospects are expected to improve the solvency conditions of banks.

Figure 3.2: Capital Adequacy Ratio



Source: Bank of Ghana

[5] *Total assets excludes the assets of the SDIs.*
[6] *Data is revised to account for the effects of the DDEP Phase I.*

Asset Quality

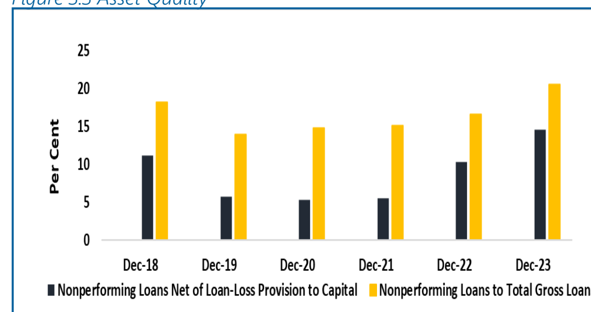
The asset quality of the banking industry deteriorated. The non-performing loans (NPLs) ratio increased from 16.6 per cent in December 2022 to 20.6 per cent in December 2023. The increase was largely driven by a slowdown in credit growth and the lagged effects of the recent macroeconomic challenges. In terms of sectoral contributions to NPLs, services, commerce and finance, construction, transport, storage and communication, and agriculture, forestry, and fishing sectors accounted for 84.1 per cent of the NPLs recorded in 2023. The NPL contributions by the various sectors are presented in the table below:

Table 3.1: Sectoral Contributions to NPLs

Sector	Dec-22(%)	Dec-23(%)
Service	28.29	25.42
Commerce and finance	23.45	23.75
Construction	19.88	14.16
Transport, storage, and communication	5.26	10.62
Agriculture, forestry, and fishing	5.95	10.16
Manufacturing	9.89	6.55
Miscellaneous	3.21	4.00
Electricity, gas, and water	1.64	3.55
Mining and quarrying	2.42	1.80

The capital at risk from possible loan losses increased in 2023. The capacity of the banking industry's capital to absorb NPL-related losses decreased slightly during the year. Non-performing loans net of provisions to capital increased from 10.3 per cent at end-December 2022 to 14.6 per cent at end-December 2023 (see figure 3.3).

Figure 3.3 Asset Quality



Source: Bank of Ghana

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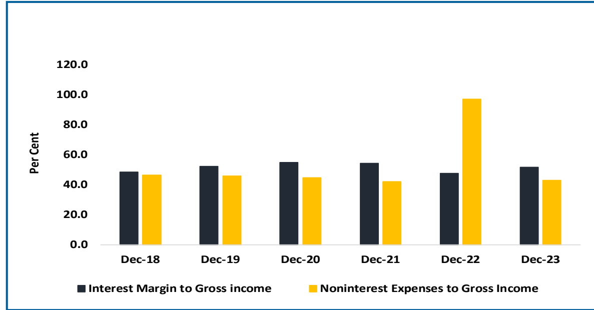
Efficiency

The efficiency of the banking industry improved in the year under review. At end-December 2023, the interest margin to gross income was 51.8 per cent, as compared to 47.8 per cent the previous year. Similarly, non-interest expenses to gross income significantly improved year-on-year. Non-interest expenses to gross income stood at 43.08 per cent at end-December 2023, down from 97.0 per cent in December 2022.

Figure 3.4: Interest Margin and Non-Interest Expenses to Gross Income

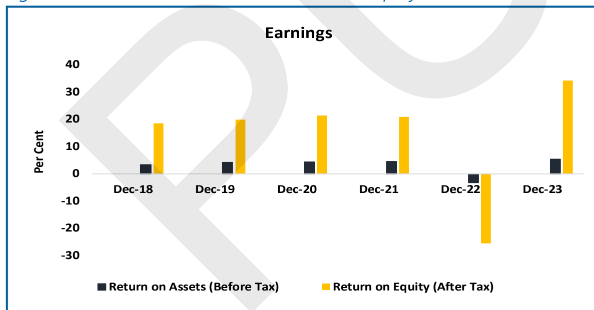


Source: Bank of Ghana

Profitability

Profitability in the banking industry rebounded strongly in 2023. Following a significant drop in earnings in 2022 arising from impairment losses related to DDEP Phase 1, profit levels in the banking industry improved significantly in 2023. Return on equity improved from negative 25.5 per cent in December 2022 to 34.2 per cent in December 2023. Return on assets also increased from negative 3.83 per cent to 5.4 per cent over the same period. The improvement in earnings will complement the Ghana Financial Stability Fund towards rebuilding the capital of undercapitalised banks.

Figure 3.5: Return on Assets and Return on Equity

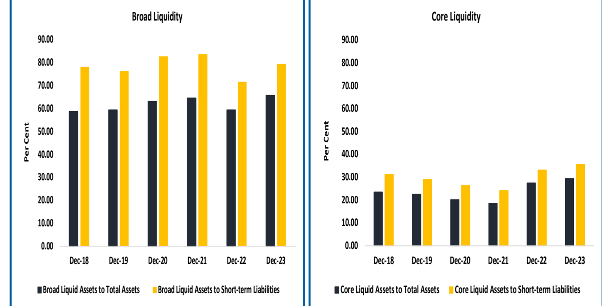


Source: Bank of Ghana

Liquidity

The banking industry remained broadly liquid. Broad liquid assets to total assets increased from 59.5 per cent at end-December 2022 to 65.7 per cent at end-December 2023. Broad liquid assets to short-term liabilities also increased from 71.7 per cent to 79.4 per cent over the review period. At end-December 2023, liquidity indicators showed that the banking industry had the capacity to meet its financial obligations.

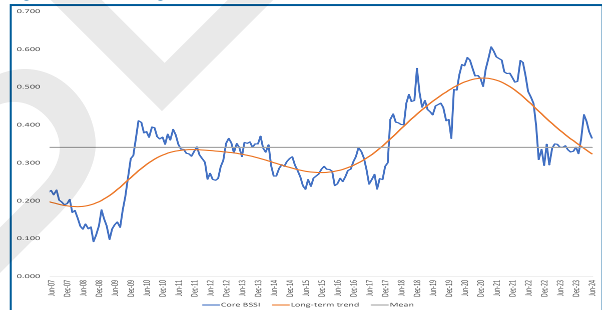
Figure 3.6: Broad and Core Liquidity



Source: Bank of Ghana

Overall, the soundness of the banking industry improved in 2023. The Banking Sector Soundness Index (BSSI), a composite indicator of soundness constructed from the Financial Soundness Indicators (FSIs), showed relative improvement in soundness in 2023 reflecting gains from the DDEP relief measures, a strong rebound in earnings, adequate liquidity, and improved efficiency conditions. The main risk to the banking industry's soundness remains the elevated NPLs, however, this is expected to moderate given the sustained macroeconomic recovery and enhanced risk management practices of banks.

Figure 3.7: Banking Sector Soundness Index[7]



Source: Bank of Ghana

The heatmap of Financial Soundness Indicators (FSI) generated mixed results. Heatmaps provide timely information on the build-up of risks by comparing current developments with historical performance. The heatmap showed strong profitability and liquidity levels, as well as improved management efficiency in 2023. However, the relatively low capital levels and high NPLs continue to heighten banking industry vulnerabilities, a development which is aggressively being addressed through recapitalisation efforts and sound credit risk management. At end-December 2023, while most of the risk indicators were either in their first-best or second-best performing periods, given historical data over the past two decades, other indicators particularly the CAR and NPL ratios were in their third or fourth-best performing periods.

[7] The BSSI is developed from the Capital Adequacy Ratio, Asset Quality Ratio, Management Efficiency Ratio, Earning Ratio and Liquidity Ratio. An upward trending BSSI connotes a general improvement in the performance of the banking system

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Table 3.2: Heat Map of Core FSIs

FSIs	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Capital Adequacy											
Regulatory capital to risk weighted assets	19.60	21.31	19.35	16.39	15.44	14.20	14.29	13.80	13.87	15.88	14.27
Regulatory tier I capital to risk-weighted assets	17.66	19.66	17.51	14.46	14.25	12.07	11.60	11.03	11.04	13.56	11.46
Asset Quality											
Nonperforming loans net of loan-loss provision to capital	6.16	6.68	6.98	6.96	10.32	11.70	14.26	11.28	14.55	19.45	15.36
Nonperforming loans to total gross loans	15.12	14.42	14.06	14.05	16.59	16.85	18.71	17.99	20.58	26.74	24.13
Banks provisions to NPL	81.26	79.40	79.41	81.19	83.58	79.27	76.76	78.89	73.19	71.70	75.66
Earnings											
Return on assets	4.57	4.72	4.59	4.50	(3.83)	5.57	5.54	5.33	5.37	5.63	5.40
Return on equity	20.91	22.32	21.94	21.91	(25.48)	36.79	37.59	35.58	34.16	36.36	35.25
Interest margin to gross income	54.50	51.91	50.90	50.81	47.82	46.13	49.06	51.27	51.80	54.23	51.41
Liquidity											
Core liquid assets to total assets	18.50	19.75	20.83	22.48	27.53	23.84	26.77	24.73	29.34	30.99	34.47
Core liquid assets to short-term liabilities	23.98	25.64	26.91	29.00	33.21	28.99	32.29	29.83	35.48	37.32	41.39
Core liquid assets to total deposits	27.48	29.91	31.73	33.40	36.47	31.09	34.60	31.71	37.61	40.04	45.31
Broad liquid assets to total assets	64.61	63.64	61.24	60.83	59.45	62.68	63.78	64.73	65.69	68.35	67.55
Broad liquid assets to short-term liabilities	83.73	82.65	79.12	78.50	71.71	76.22	76.92	78.07	79.42	82.31	81.10
Efficiency											
Noninterest expenses to gross income	42.19	41.37	42.58	40.52	97.04[8]	41.55	41.26	42.69	43.04	38.86	37.65
Personnel expenses to gross income	18.06	17.84	17.91	16.23	16.45	15.20	15.49	15.65	15.67	16.19	16.62

1st Best Performing Period | 2nd Best Performing Period | 3rd Best Performing Period | 4th Best Performing Period

Source: Bank of Ghana

3.2 Regulatory Developments

The BOG remained focused on addressing the adverse effects of the macroeconomic challenges and the DDEP. Following the implementation of regulatory reliefs and the publication of the 2022 Audited Financial Statements, banks that breached the minimum Capital Adequacy Ratio and unimpaired Paid-Up Capital (GH₵400 million) post-DDEP, were directed to develop and submit Capital Restoration Plans to the BOG. The plans indicated how the banks would restore capital adequacy promptly and progressively over three (3) years ending in 2025. To strengthen the Capital Restoration Plans submitted by the banks, the BOG developed and issued the "Guidance Notes on the Preparation of Capital Restoration Plans". This clarified BOG's minimum regulatory expectations on the plans resubmitted by the banks.

Monetary policy remained tight to rein in inflation. During the year, the Monetary Policy Committee (MPC) noted, at its regular sittings, the heightened risks to the inflation outlook arising from geopolitical tensions and aggressive policy tightening in Advanced Economies. These developments meant the MPC had to be committed to reining in inflation by ensuring tighter monetary policy. Accordingly, the MPC ensured a tightened stance by increasing the policy rate cumulatively by 300 basis points to 30.0 per cent during the year.

The cash reserve ratio (CRR) was increased as part of measures to reinforce the BOG's tight monetary policy stance. The BOG raised the CRR for banks from 12 per cent to 14 per cent for domestic currency deposits in April 2023 as part of liquidity management operations to address structural excess liquidity in the market and provide additional impetus to the disinflation process. In November 2023, the BOG reset the CRR at 15 per cent for both domestic and foreign currency deposits and further directed for the CRR to be met in domestic currency.

The BOG worked towards issuing new directives and guidelines to support risk management in the banking industry. The BOG drafted several directives, and guidelines covering recapitalisation, outsourcing, management and disclosures of climate-related risks, treatment of sovereign exposures, and assessment of banks' business models. The BOG issued the outsourcing directive and internal framework for business model analysis as Exposure Drafts to solicit comments and inputs from the industry as well as the public. The BOG aims to issue these directives in 2024: climate-related

[8] Non-interest expense reflects the full impact of the DDEP phase 1

financial risk management directive; outsourcing directive; large exposures directive; concentration risk directive; and guidance notes on stress tests. The BOG shall finalise its Internal Framework for Business Model Analysis in 2024 and aims to adopt this framework in conducting a specialised exercise in assessing the viability and sustainability of banks' business models.

The BOG launched an e-Cedi Hackathon for Ghana. In 2023, the BOG in collaboration with EMTECH Solutions Inc. launched an e-cedi hackathon to allow FinTech companies, engineers, and other professionals and innovators to design solutions using the Central Bank Digital Currency. The objective of the project was to encourage local developers to showcase their creativity by collaborating with peers to generate innovative solutions for solving financial inclusion problems based on the e-Cedi.

3.3 Measures to Mitigate Emerging Risks

The BOG maintained the regulatory reliefs and supported the development and implementation of the FSSS. The BoG followed through the implementation of the FSSS by ensuring that capital restoration plans of banks severely impacted by the DDEP were reviewed and approved. The measures were to ensure that banks adversely impacted by the DDEP are put on a sustainable path of recovery. As mentioned, the GFSF was also established initially with the GoG US$500 million recapitalisation bonds to provide solvency support to state-interest banks. The World Bank's US$250 million support for the GFSF was approved but yet to be effective. These developments and continuous communication by the BoG using its bi-monthly MPC Press Brief meetings have all contributed to mitigating any potential emerging risks.

The BOG developed the Business Model Analysis (BMA) Framework, in line with the Basel accords, to address viability and sustainability concerns of banks' business models. The global banking turmoil from March to May of 2023 brought attention to the necessity for banks to develop and put into practice sound, long-term strategies that produce steady returns. Given this, the Basel Committee on Banking Supervision (BCBS) revised the Basel Core Principles and included expectations for supervisors in assessing business model sustainability. In addition, sequel to the lessons learned from the banking sector clean-up exercise in 2017–2019 and the current concerns surrounding the DDEP, the BOG heightened its assessment of the viability and sustainability of banks' business models. To effectively execute this, the BOG developed the BMA Framework to improve its supervisory procedures for determining whether banks' business models are sustainable or not. In 2024, supervisors will conduct a special investigation aimed at early detection of vulnerabilities in banks' business models, and prompt remedial measures shall be instituted to mitigate weaknesses identified.

The BOG continues to implement measures to address climate-related financial risks. Recent regulatory developments around the world have mostly focused on addressing emerging climate-related risks to the stability of the financial system. The International Sustainability Standards Board (ISSB) published guidance notes on general requirements for disclosure of sustainability-related financial disclosures (IFRS S1) and climate-related disclosures (IFRS S2) in June 2023, to strengthen the disclosure requirements and risk management function concerning climate-related financial risk. The BCBS also issued principles on effective management and supervision of climate-related financial risks in June 2022 and a consultative document on disclosures of climate-related financial risks in November 2023. The globally recognized threat of the wider sustainability issues and the impact of climate change on financial stability has led to the BOG to develop its regulatory expectations regarding the Management and Prudential Disclosures of Climate-related Financial Risks.

The banking industry has seen an increasing trend in the outsourcing of functions by banks and SDIs to reduce costs and improve efficiency. The complexity of outsourcing services is rising, and this could put a bank or SDI at greater risk for operational, compliance, concentration, and strategic risks. In this regard, the BOG is in the final stages of issuing an Outsourcing Directive aimed at setting out the regulatory expectations for the management of outsourced functions. This will help with the operationalization of Section 60(12) of Act 930 that requires banks to not outsource a function without the written approval of the BOG.

The BOG is developing a directive to manage interest rate risk in the banking book. The swings in interest and inflation rates and the impact on mark-to-market instruments were major factors that led to the failure of some global banks in 2023. Mark-to-market losses may have serious consequences for the safety and soundness of regulated financial institutions, including diminished confidence from investors and depositors, forced asset sales, and erroneous valuations. To manage the inherent risks resulting from mark-to-market losses, the BOG is developing a directive to guide the industry in managing interest rate risk in the banking book.

The BOG is amending its Cyber and Information Security Directive in line with recent developments in the industry. The risks associated with cyber and information security have escalated. This is because

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of the increased reliance and use of social networking, electronic products, digital payment system services, and IT-driven business operations. Additionally, the digitalization of finance and technology-driven innovation have altered consumer behaviour as well as the delivery of banking services. New technologies, new competitors, and the introduction of new products bring opportunities and risks to banks, the banking system, and to regulators. Considering these developments, the BCBS updated the Core Principles, naming digitalization as one of the thematic areas that was reviewed and enhanced. The BOG will review the current Cyber and Information Security Directive, leveraging the Basel amendments, to reflect new developments and customise it for adoption by the SDIs.

The BOG is strengthening the regulation and supervision of expected credit loss models. The BOG undertook an Asset Quality Review of the banks' loan portfolio in 2023. The exercise was to ascertain whether the asset classification of banks' loan and investment portfolios comply with the International Financial Reporting Standards (IFRS) and the classification guidelines of the BOG. As part of efforts to develop a robust risk management framework, the BOG is engaging the services of qualifying firms to assist with the review and validation of the IFRS 9 Expected Credit Loss (ECL) models used by banks for estimating ECL/ impairment. Subsequently, the BOG shall develop a challenger IFRS 9 ECL model to aid supervisors assess banks' models.

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04 Assessment of the Insurance Industry

4.1 Performance of the Insurance Industry

Introduction

In the face of a rapidly evolving global landscape marked by profound challenges including COVID-19 pandemic, geopolitical tensions, and the Domestic Debt Exchange Program, Ghana's Insurance industry seem to have somewhat weathered the storm and seeks to emerge as a resilient industry.

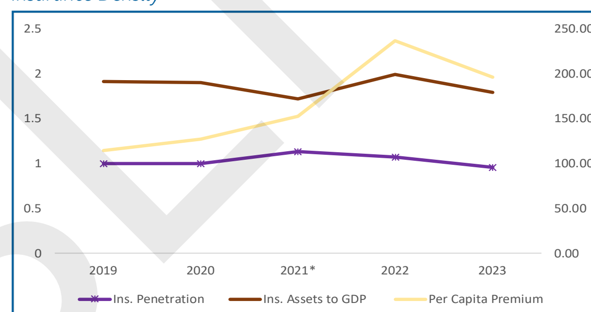
The resilience of the industry has been supported by improved regulation, supervision and increased digitalisation. The burgeoning participation of InsurTech firms in the insurance sector, alongside the ongoing digital transformation initiatives, and the commitment of industry stakeholders to establish and maintain effective corporate governance frameworks, highlight the insurance industry's progressive growth. This evolution is further supported by the NIC's dedication to enhancing, refining, and effectively enforcing supervisory and regulatory frameworks. A notable development in this respect is developing a complaints management system to streamline the complaints process and empower policyholders and prospective clients to actively participate in shaping and upholding the insurance industry's reputation through feedback in the form of complaints and suggestions.

Moreover, the implementation of International Financial Reporting Standard 17 (IFRS 17) represents a significant step forward. Among other benefits, IFRS 17 ensures the accurate valuation of liabilities, thereby strengthening the industry's overall robustness. Complementing this, is the imminent introduction of the Risk-based Capital Framework by the NIC to ensure that the capital held by Ghanaian insurance companies is proportional to their risk exposure. Initially, IFRS 17 may pose challenges to insurers' profitability due to higher operational costs, fluctuations in discount rates, unfavourable changes in assumptions and adjustments impacting adversely on the Contractual Service Margin (CSM), regulatory and stakeholder expectations among others. Nonetheless, it is anticipated that these challenges will diminish over time as insurers adapt to and gain proficiency in managing the risks associated with their business activities.

Insurance Penetration

Insurance penetration remained steady at approximately 1 per cent for the past five years (see Figure 4.1). However, the traditional way of computing insurance penetration has been questioned by some industry experts as discussed in Box 4.1. In the years ahead, the NIC expects growth to be driven by the combined impact of the full implementation of the digitalization initiatives, innovation, continuous expansive public education efforts by the NIC, and full protection of policyholders as required by the Insurance Act, 2021 (Act 1061)

Figure 4.1 Insurance Penetration, Insurance Industry Assets/GDP and Insurance Density



Source: National Insurance Commission

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[3] *This growth, however, excludes premiums from oil and gas. Growth is expected to be higher when oil and gas business is included in the calibration*

Box 4.1 -Dynamics of Insurance Penetration Computation

The traditional way of defining insurance penetration (i.e. total insurance penetration to GDP) is usually used to gauge the development and impact of insurance sector on economic growth. Whilst this metric provides valuable insights (for example, either highlighting the extent to which insurance is accessible to the general population, indicating levels of financial inclusion and risk management practices among different socio-economic group in Ghana or highlighting the effectiveness of policies and regulations by the NIC aimed at promoting insurance usage and the Ghanaian insurance market development) it does not offer a holistic view of the true impact of insurance on economic development. The analysis below attempts to discuss compelling reasons for this stance:

The current insurance penetration formula (i.e. Total Insurance Premiums / Gross Domestic Product) overlooks critical elements such as the affordability of insurance products, the equitable distribution of insurance services across different socio-economic groups, and the relevance of these services to the actual needs of the population. Insurance penetration, as currently calculated in Ghana, does not factor in the contribution of health insurance, pensions, and social security, which are key drivers for high insurance penetration rates in other jurisdictions. In an environment where insurance products may be either out of financial reach for a significant portion of the population or not tailored to their specific needs, a seemingly stable penetration rate may mask underlying issues of accessibility and relevance.

Furthermore, using GDP as the denominator introduces a significant variability. Economic fluctuations can lead to misleading interpretations of insurance penetration rates. For instance, a shrinking GDP might artificially inflate the penetration metric, suggesting growth in the insurance sector when in reality, the sector's growth may be stagnant or even declining. Conversely, rapid economic growth could obscure the progress made in expanding insurance coverage and improving services.

Moreover, this formula does not cover the maturity of the insurance market which is crucial to understanding the potential for growth and the sustainability of the insurance sector. Emerging markets, in particular, may show low penetration rates not due to a lack of demand but because of other ancillary factors that hinder market expansion and innovation. This formula for estimating the insurance penetration rate offers a tunnel-vision snapshot and falls short of providing a comprehensive understanding of an insurance market's depth and breadth.

Focus and consideration are being given more to affordability, product diversity, market maturity, and insurance coverage, which is another index for measuring insurance performance, to offer more accurate and meaningful assessments of the growth of and performance of insurance.

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Retention of Premiums

Retention ratios marginally changed in both the Non-Life and Life sectors whilst remaining within the reinsurance guidelines. In the non-life segment, the retention ratio inched up from 68 per cent to 69 per cent (see figure 4.2). Similarly, the retention ratio also marginally increased in the life segment, from 88 per cent to 89 per cent, reflecting the nature of business (i.e. the demand for savings-linked insurance products as well as the long-term nature of the actuarial liabilities). The NIC approved a total amount of GH₵656 million in respect of overseas reinsurance premiums transfers in 2023 (see figure 4.3). Compared to 2022, the hike in overseas premiums transfer in 2023 can be attributed not only to the limited availability of local capacity but also due to a notable substantial surge in premiums remittance denominated in US Dollars and Pound Sterling.

Figure 4.2 Retention Ratios by Life and non-life insurance

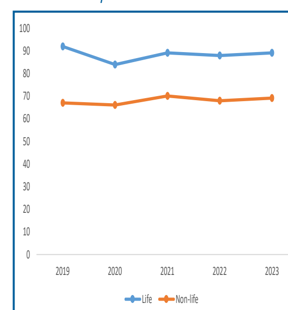
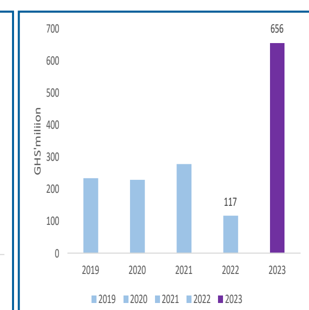


Figure 4.3 Overseas Reinsurance Premium Transfers

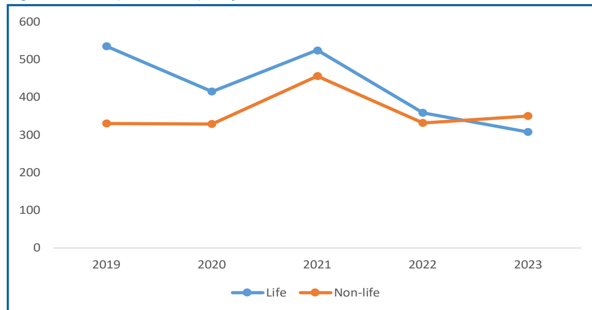


Source: National Insurance Commission

Solvency

In 2023, the insurance industry continued to thrive, maintaining a Capital Adequacy Ratio[9] (CAR) well above the regulatory benchmark of 150 per cent. This achievement underscores the industry's robust financial health and resilience. However, it is noteworthy that the life insurance segment saw a marginal decline in its CAR, primarily due to the incorporation of necessary risk adjustments and the effect of the domestic debt exchange programme (see Figure 4.4). These measures, while affecting the CAR, are essential for ensuring the sector's stability and responsiveness to evolving economic, financial, and insurance landscapes.

Figure 4.4 Capital Adequacy Ratio (CAR)



Source: National Insurance Commission

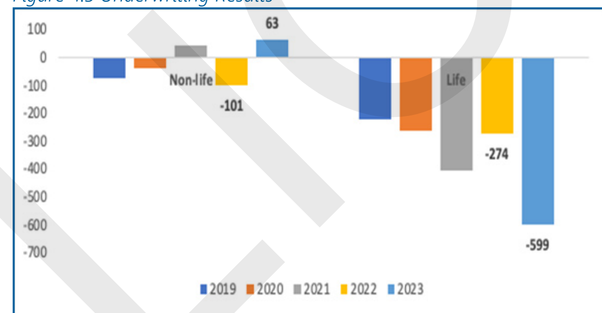
The insurance industry's equity base also reported a significant expansion, growing from GH₵4.45 billion in 2022 to GH₵5.52 billion in 2023. This remarkable 24 per cent ascent reflects the sector's strong financial resilience and its capacity for sustained growth and adaptation given the rather volatile and dynamic economic environment witnessed these past couple of years. Such an upswing in equity not only signals the industry's robust health but also its potential to leverage opportunities and navigate challenges effectively, ensuring potential long-lasting prosperity and stability for all stakeholders involved.

Profitability

Growth in investment income in the insurance industry moderated the decline in CAR recorded in the life sub-sector noted earlier. This was largely propelled by interest income and realized gains on financial assets, highlighting the sector's adept investment strategies which enhanced its resilience against liquidity challenges in the face of the adverse impact of DDEP. By effectively leveraging these financial gains, the life sub-sector has managed to offset the adverse effects brought about by heightened operational costs and risk adjustments in the period. This strategic financial management underscores the sector's commitment to navigating through economic challenges, ensuring sustained stability and continued contribution to the industry's overall health.

In a related development, both life and non-life insurance sectors reported an improvement in Return on Equity (ROE). For the life insurance sector, investment income played a crucial role in offsetting underwriting losses, reflecting the sector's resilience amidst operational challenges (Figures 4.5 and 4.6). The DDEP, while introducing potential risks to investment returns, was effectively navigated by both sectors, demonstrating their capacity to mitigate such risks. Going forward, the industry is encouraged to prioritize core operational profitability. Notably, the non-life sector, which realized underwriting profit, exemplifies the strategic importance of focusing on underwriting practices. This focus is essential for improving the solvency positions of insurers in the near to medium term while ensuring their long-term financial stability and ability to adapt to a dynamic economic environment.

Figure 4.5 Underwriting Results



Source: National Insurance Commission

Figure 4.6 Investment Yield and Return on Equity

Source: National Insurance Commission

Investment Portfolio

Investment assets within the industry witnessed significant growth. The total value of investment assets increased by 22 per cent to GH₵10.5 billion in 2023 from GH₵8.6 billion in 2022. In the life sub-sector, investment assets stood at GH₵7.0 billion as at end December 2023, markedly overshadowing the GH₵3.5 billion recorded in the non-life insurance sector in the same period. A common strategy across both sectors is the predominant investment in fixed-income assets.

However, the share of government securities in the investment portfolio declined. The non-life sub-sector experienced a decline in its allocation to government securities, with holdings in GOG and BOG securities decreasing by 13 per cent, reducing the share of GOG

[9] *The Insurance Capital Adequacy Ratio (CAR) is computed by dividing Available Capital Resources(ACR) by Solvency Capital Required(SCR). Thus, CAR = ACR / SCR*

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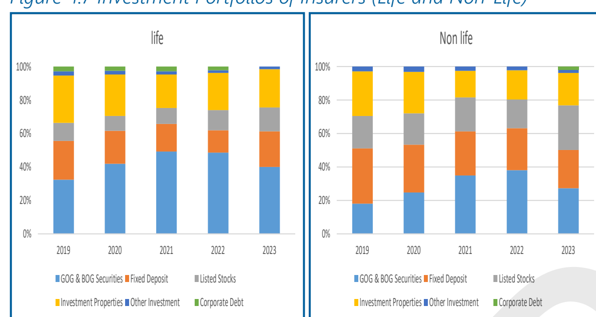
and BOG securities in the total investment portfolio from 38 per cent in 2022 to 27 per cent in 2023. In the non-life sub-sector's investment distribution, fixed deposits made up 23 per cent, while listed securities and investment properties constituted 27 per cent and 19 per cent, respectively. Similarly, the life sector saw a slight decrease in its investment in GOG and BOG securities by 9 per cent, bringing its share in the investments mix down to 40 per cent in 2023 from 49 per cent previously. This reduction reflects a strategic shift possibly as a direct response to the ramifications of the DDEP initiative. Notably, the life sector's investment in properties edged up by 1 percentage point, reaching 23 per cent, and fixed deposits climbed to 21 per cent, marking an 8-percentage point increase in 2023.

Figure 4.7 Investment Portfolios of Insurers (Life and Non-Life)



Source: National Insurance Commission

The observed shifts in investment strategies suggest that the insurance industry's future hinges on the ability of insurers to adeptly diversify their investment portfolios. Achieving optimal returns amid ongoing operational cost rationalization is crucial for maintaining core profitability. The industry's adaptive measures in response to dynamic economic conditions highlight the importance of strategic investment decision-making to sustain growth and resilience.

The NIC views the future with optimism, grounded in the industry's demonstrated resilience and strategic foresight. While the adoption of IFRS 17 presents a notable challenge, with potential implications for the CAR across the industry, the NIC remains proactively prepared and has developed and implemented comprehensive strategies in that regard. The NIC's commitment to strategic planning and periodic revision as well as maintaining regulatory compliance will ensure the industry's financial health and stability are preserved.

4.2 Regulatory Developments

NIC intensified training to deepen insurance penetration and hosted an international conference on inclusive insurance. The NIC organized and trained insurance brokers during the review year in its quest to ensure the broking sub-sector understood the operations of the centralized database for the Marine and Aviation Insurance business. In addition, the NIC continued to engage and train key staff of insurers and reinsurers, such as persons performing the actuarial, underwriting, and finance functions on the application of IFRS 17. This will ultimately ensure the smooth transition to IFRS 17 from IFRS 4. The Board Chairpersons and Chief Executive Officers of (re)insurance companies were trained on insurance sector related Environmental, Social, and Governance (ESG) issues and the new Risk-Based Capital (RBC) requirements for the (re)insurers. Ghana hosted an "International Conference on Inclusive Insurance" jointly organized by the Ghana Insurance Industry, the Munich Re Foundation, and the Microinsurance Network. The conference discussed and identified ways of accelerating growth and economic viability in inclusive insurance for Africa and Emerging Markets.

A directive was passed to address conflict of interest issues. To ensure potential conflict of interest positions are mitigated or entirely eliminated from the insurance industry, the NIC issued a directive to its regulated (re) insurers to ensure that none of their Board members occupy positions in banks or bancassurance units as required by the Insurance Act, 2021 (Act 1061).

The NIC issued a directive on the back of the implementation of the DDEP to protect the interest of policyholders and preserve the sanity and reputation of the insurance industry. The directive ensured that no life insurer without the prior approval from the NIC should:

i. revise the policy terms and conditions of existing products,
ii. vary the underlying pricing assumptions of existing products, and
iii. engage in product - bundling.

In addition, the NIC issued some regulatory reliefs. To support the industry to orderly manage risks associated with the DDEP, the following reliefs were granted:

i. moratorium on the enforcement of the MCRs, and CAR,
ii. revisions in asset risk discounts,
iii. revisions in claims payment timelines,
iv. release of up to fifty per cent (50 per cent) of the statutory deposit, upon request,
v. forty per cent (40 per cent) reduction in NIC product approval fees, for specific products, and
vi. directive on the Management of Life Insurance Policies and Benefits.

NIC is building a mortality database to support actuarial valuation. Concerning the UNDP- Milliman Ghana mortality project, the mortality sub-committee of the

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Global Actuarial Initiative (GAIN) project, commenced the processes to investigate the mortality experience of assured lives in Ghana. This has the goal of building a mortality database suitable for the industry's unique experiences.

4.3 Measures to Mitigate Emerging Risks

A critical component of NIC's strategic response to emerging risks is the emphasis on professional development, particularly in the context of the IFRS 17. The NIC, in conjunction with Ghana Insurance College facilitated extensive training for Chief Executive Officers (CEOs), Chief Financial Officers (CFOs), Chief Operating Officers (COOs), Underwriting Officers, and Regulatory and Supervisory Officers on IFRS 17. It focused on equipping industry leaders and key personnel with a deep understanding of the new reporting standard, which significantly impacts insurance contract accounting. By enhancing expertise in IFRS 17, the NIC is strengthening the industry's capacity to accurately assess and report on financial performance and risks to enhance transparency and decision-making. It is worth noting that the NIC is set to receive the industry's first batch of IFRS 17-compliant Annual Reports in 2024.

The NIC directed insurers to boost cyber defence in response to the heightened cybersecurity threats. This includes increasing investments in monitoring tools to mitigate exposure to data breaches, ransomware attacks, and insider threats, to ensure the protection of sensitive information. To facilitate this, the NIC is developing a cyber-risk security framework as the minimum standard in the industry. It is expected that the implementation would be guided by the principle of proportionality based on the nature, scale, and complexity of the insurer.

The GFSF, regulatory reliefs, and cybersecurity vigilance among others are in place to mitigate the post DDEP impact on solvency and liquidity in the insurance sector. The GFSF remains an option amongst others communicated by the NIC to the industry. It continues to aim at providing essential liquidity and solvency support and ultimately maintaining public confidence in the insurance sector. This comprehensive approach, combining digital transformation, regulatory adaptation, cybersecurity vigilance, and professional development, represents a holistic strategy to mitigate emerging risks in Ghana's insurance industry. Through these measures, the NIC aims to foster a resilient, adaptive, and sustainable insurance sector capable of navigating the complexities of the contemporary insurance risk landscape.

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05 Assessment of the Securities Industry

5.1 Performance of the Securities Industry

Introduction

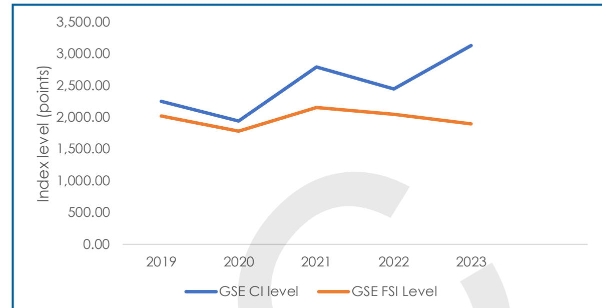
The performance of the securities sector improved in 2023 reflecting broad improvements in macroeconomic conditions. The second half of the reporting period witnessed an improvement in macroeconomic conditions evident in the relative stability in exchange rates, a sustained disinflation process, and an augmentation in foreign exchange reserves. These positive developments were reflected in the equities and fund management segment, where performance showed marked improvement. Generally, the securities industry demonstrated resilience, indicating a possible return to normalcy in the near term.

Equities Market

The equity market recorded a firm rebound in 2023. The Ghana Stock Exchange Composite Index (GSE-CI), the measure of the broad performance of the GSE, increased by 686 points year-on-year to end 2023 with an annual return of 28 per cent compared with a decline of 14 per cent recorded in 2022. The strong recovery came on the heels of renewed investor interest in the equities market amidst a heightened DDEP-fuelled risk aversion to the debt market. Additionally, the relatively low pricing of some securities in 2023 provided opportunities for investors to enter the market given the low valuations. Growth was led by the Fast-Moving Consumer Goods (FMCG), Agribusiness, Telecommunications, and Oil Marketing sector stocks.

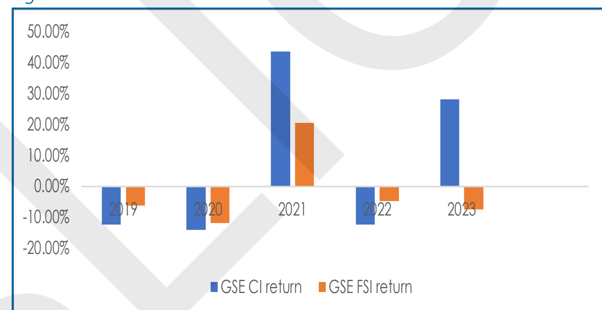
However, the GSE Financial Stocks Index (GSE-FSI) declined. The GSE-FSI, a broad measure of listed financial sector stocks, shed 151 points year-on-year, marking a negative return of 7 per cent. The financial stocks bore the brunt of the negative impact of the DDEP on investor sentiments. Sector valuations were largely depressed due to the sector's high exposure to government securities. However, the sector recorded some recovery in the second half of the year gaining 10.9 per cent which moderated the losses and boosted the performance of the GSE-CI.

Figure 5.1: GSE-CI and GSE-FSI Levels



Source: Ghana Stock Exchange, 2024

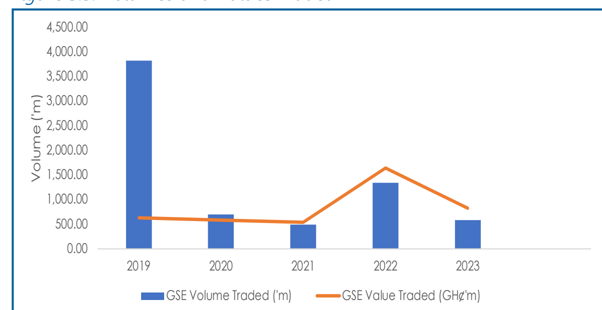
Figure 5.2: GSE-CI and GSE-FSI Annual Returns



Source: Ghana Stock Exchange, 2024

The market's breadth was positive. On a year-on-year basis, nine (9) stocks declined in price, ten (10) stocks increased in price, while the remaining eighteen (18) stocks remained unchanged. Trading activity was moderate with a market turnover (trade values) of GH₵818.74 million (-50.11% y/y) from the exchange of 579.7 million shares (-56.6% y/y) in the year. Trading activity was led by the telecommunications sector with MTN Ghana Limited accounting for 85 per cent and 71 per cent of the total volumes and value traded, respectively.

Figure 5.3: Volumes and Values Traded



Source: Ghana Stock Exchange, 2024

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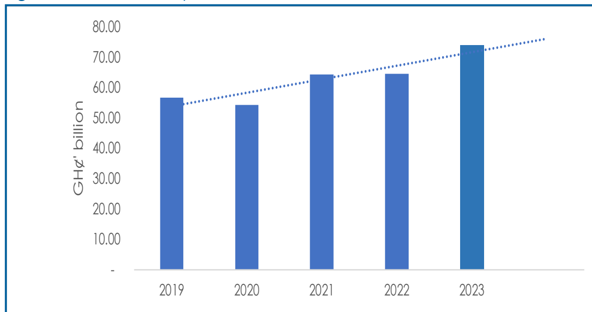
The cumulative value of counters listed on the Ghana Stock Exchange increased in 2023. The market capitalisation (market value of listed companies) of the GSE expanded by 15 per cent year-on-year to GH₵73.89 billion in 2023, from GH₵64.5 billion in 2022. This reflected the improving market conditions and investor optimism following the USD-denominated Extended Credit Facility (ECF) agreement with the International Monetary Fund (IMF). At the close of the year, there were 32 stocks on the main list of the exchange and 5 stocks on the alternative market (GAX) of the GSE. Looking ahead, we expect the equities market to sustain the growth in market capitalisation.

Figure 5.4: Market Capitalisation



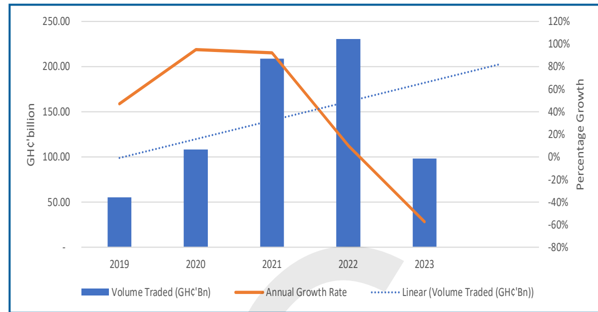
Source: Ghana Stock Exchange, 2024

Fixed Income Market

There was a notable uptick in the total volume of debt instruments admitted to the Central Securities Depository (CSD) in 2023 compared to the previous year. The total volume of debt instruments admitted to the CSD in 2023 was GH₵409.2billion (+151%), an increase from GH₵162.8 billion in 2022. The year 2023 marked a notable variation, as evidenced by the data concerning admitted bonds in the pandemic and post-pandemic periods. At the end of 2023, 229 debt instruments were listed on the Ghana Fixed Income Markets (GFIM), with GoG securities constituting 85 per cent and corporate bonds accounting for 15 per cent. This narrative persisted from the preceding year, as government bonds continued to dominate the debt market.

The value of cumulated debt instruments traded was characterized by significant contractions, presenting a more subdued outlook compared to its performance in the previous year. The GFIM closed the year 2023 with a cumulative volume traded of GH₵98.44 billion which is a 57.26 per cent decrease from the GH₵230.32 billion traded same period in the previous year. This bearish trend was induced by the DDEP which constrained market liquidity. As a crucial gauge of Ghana's debt landscape, the GFIM experienced notable changes in composition during the period. Long-term government securities formed 32.47 per cent of market activity, while short-term government instruments accounted for 58.64 per cent, with corporate transactions comprising 8.89 per cent over the year.

Figure 5.5: Volumes traded on GFIM



Source: Ghana Stock Exchange, 2024

Table 5.1: Comparison of Bond Trading Activities on the GFIM

Bond Trades	Q1	Q2	Q3	Q4
2022 (GH₵'Bn)	64.07	60.07	49.92	56.55
2023 (GH₵'Bn)	24.76	16.13	18.33	39.22
% change	-61.35	-73.15	-63.28	-30.65

Source: Ghana Fixed Income Market, Securities and Exchange commission 2023

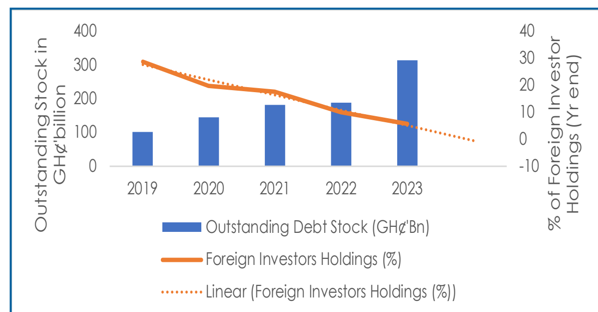
Table 5.2: Comparison of Bond Trading Activities on the GFIM

Bond Trade Volumes 2022/2023	JAN-DEC	% Change
2022	GH₵230.32 billion	-57%
2023	GH₵98.44 billion	

Source: GFIM, SEC, 2023

There has been a significant shift in the composition of investors in the fixed income market. Resident investors have become increasingly dominant, holding a substantial 94.43 per cent of the outstanding debt stock by the close of the 2023 fiscal period (up from 90% in FY2022). This rise coincides with a decrease in non-resident investor participation, whose share of the debt stock shrunk to 5.57 per cent (down from 10% in 2022). This decline in non-resident investor activity was attributed to sell-offs driven by concerns about inflationary pressures, depreciation of the Cedi, and other economic variables.

Figure 5.6: Year-End Holdings of Foreign Investors in Outstanding Debt Stocks



Source: Central Securities Depository, Securities and Exchange Commission, 2024

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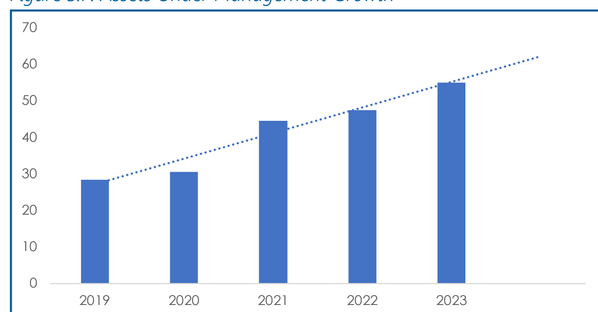
Asset Management Industry

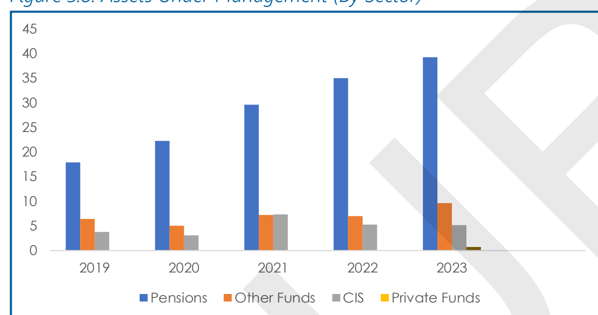
The asset management industry demonstrated resilience in 2023, buoyed by a relatively improved macroeconomic climate, which had a positive spillover effect on the securities industry. Total Assets Under Management (AUM) reached GH₵67.5 billion (Mark-To-Market (MTM): GH₵55 billion including private funds) by year-end, reflecting a significant 38 per cent year-on-year growth and a strong Compound Annual Growth Rate (CAGR) of 23 per cent over the past decade. This growth exceeded the 10 per cent recorded in 2022, signalling a renewed sense of optimism within the industry.

Figure 5.7: Assets Under Management Growth



Source: Securities and Exchange Commission, 2024

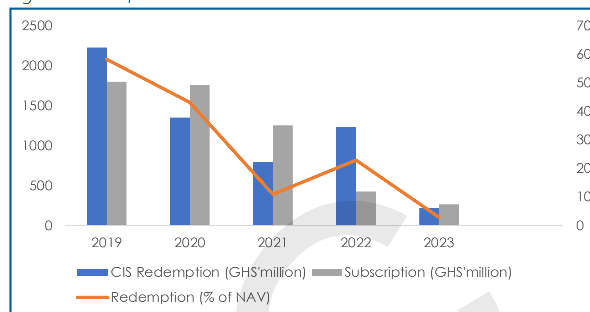
Figure 5.8: Assets Under Management (By Sector)



Source: Securities and Exchange Commission, 2024

In the reporting year, investment funds exhibited a mixed picture, with pension funds and wealth and other funds experiencing growth, while Collective Investment Schemes (CIS) faced a decline on a mark-to-market basis. Notably, pension funds surged by 12 per cent to reach GH₵39 billion (Held to Maturity (HTM): GH₵49 billion), representing a significant portion of the industry's total AUM at 71 per cent. Private wealth funds and other funds increased by 38 per cent, totalling GH₵9.7 billion (HTM: GH₵10.8 billion), representing 18 per cent of industry assets. However, the Collective Investment Schemes (CISs) experienced a 1 per cent decline in net asset value, in 2023. CISs ended the year with a total AUM of GH₵5.2 billion (HTM: GH₵6.9 billion), representing 10 per cent of industry assets. This decline in CIS can be attributed in part to mark-to-market adjustments and liquidity challenges stemming from the DDEP. Furthermore, shifts in interest rates within the money market fuelled the preference for treasuries, prompting a flow of funds from CIS (subscription as a percentage of Net Asset Value (NAV) in FY2023: 4%, FY2022: 7%) to government securities. Private funds constituted 1 per cent of the industry's AUM, valued at GH₵ 0.76 billion.

Figure 5.9: Performance Collective Investment Schemes



Source: Securities and Exchange Commission, 2024

The Ghana Commodity Exchange

The Ghana Commodity Exchange (GCX) experienced a significant downturn in trading activity during the 2023 reporting year. The commodities traded on the market, encompassing Maize, Soya Bean, Sorghum, Sesame, Rice, and Cashew, encountered a downturn in trade volumes. Despite their essential role in Ghana's agricultural landscape, the total trade value for these commodities dwindled to GH₵11.3 million in 2023, a stark contrast from GH₵20.7 million recorded in the preceding year, representing a significant decrease of 45 per cent (see figure 5.10). This decline can be ascribed to a confluence of challenges, including prevailing macroeconomic uncertainties, and shifting price dynamics influenced by the evolving climate patterns. Moreover, the number of contracts for the reporting period decreased significantly to 2,206, representing a 36 per cent reduction compared to the previous year.

The trading volumes for the reporting year exhibited a notable decline compared to the figures reported for 2022. The market recorded a trading volume of 2,488.17 metric tonnes in 2023, a stark contrast to the 5,585.26 metric tonnes reported for the 2022 trading year (see figure 5.10). Consequently, this translated to a CAGR of 11 per cent for the market since 2019. During the year 2023, only two commodities were traded: maize and soya bean, with maize dominating market activity, accounting for 93 per cent of the total trade volumes. Comparatively, there was a 22 per cent increase in the volumes of maize traded on the market during the 2023 trading period. This increase was attributed to the continued significance of maize as a primary cereal crop in the domestic market. Furthermore, when comparing the closing prices of commodities in 2022 with those of December 2023, it was observed that the benchmark contracts of the commodities listed on the market experienced a decline of 36 per cent. This downward trend in the market reflected the challenges encountered in terms of trading volumes.

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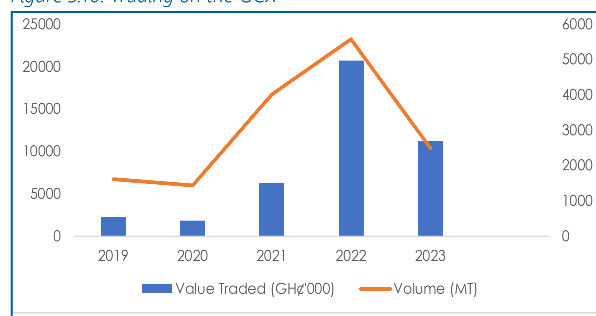
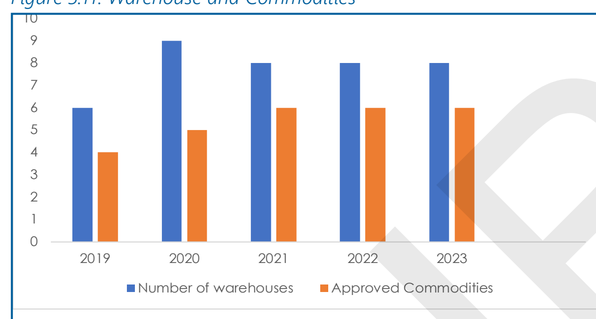
Notwithstanding the downturn in trading activity, the GCX Graded Commodity Index (GCX-GCI) improved with stable infrastructure system. The GCX-GCI tracks the prices and returns of graded maize and soybean commodities traded across eight (8) delivery centres (warehouse) of the GCX. In 2023, the GCX-GCI witnessed an uptick, closing the year with a yield of 7.14 per cent. The number of warehouses and their storage capacity remained stable over the past three (3) years (see figure 5.11 and 5.12).

Figure 5.10: Trading on the GCX



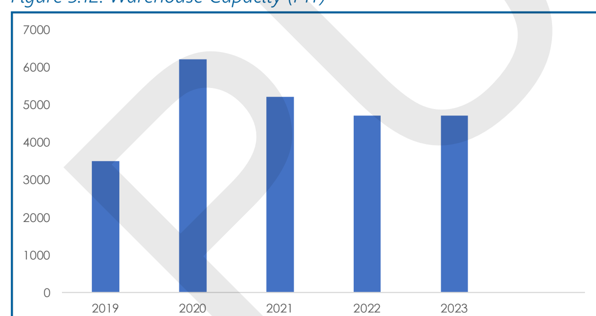
Source: Ghana Commodities Exchange, 2024

Figure 5.11: Warehouse and Commodities



Source: Ghana Commodities Exchange, 2024

Figure 5.12: Warehouse Capacity (MT)



Source: Ghana Commodities Exchange, 2023

In addition, the Commodity Aggregation Development Fund (CADeF) and GCX Aggregation Support Scheme (GASS) emerged as the stalwart pillars driving trade. These initiatives not only provided vital funding for commodity aggregators to procure goods directly from smallholder farmers at the farmgate but also facilitated increased volumes stored in various warehouses, thereby bolstering market liquidity and resilience. Among other things, their role has been instrumental in navigating the complexities of the agricultural market landscape.

5.2 Regulatory Developments

The SEC undertook a series of regulatory measures to mitigate the adverse repercussions of the DDEP. Recognizing the potential impact of the DDEP on the market, the SEC extended support including regulatory capital reliefs for market operators and exemptions from full compliance with specific regulations outlined in the:

a. Conduct of Business Guidelines;
b. Licensing Requirement Guidelines;
c. Investment Guidelines for Fund Managers; and
d. Other regulatory frameworks.

These reliefs alleviated the strain on market participants and ensured the continued smooth functioning of the financial ecosystem. Moreover, the SEC remains attentive, closely monitoring market developments, and stands ready to implement additional interventions as warranted to safeguard market stability and integrity.

The SEC remained steadfast in the implementation of the Capital Market Master Plan (CMMP), a comprehensive roadmap to shape the evolution of Ghana's capital market from 2020 to 2029. At its core, the CMMP envisions the cultivation of "a deep, efficient, diversified, and well-regulated capital market with a full range of products attractive to domestic and international investors". Central to the CMMP are four (4) pillars that underpin its strategic framework:

a. **Pillar 1:** Improving the diversity of investment products and liquidity of the securities market,
b. **Pillar 2:** Increasing the investor base,
c. **Pillar 3:** Strengthening infrastructure and improving market services, and
d. **Pillar 4:** Improving regulation, enforcement, and market confidence.

Substantial strides were made with the implementation of Phase 1 of the CMMP, themed "Making the Market Attractive." Notable amongst these was the issuance of guidelines including Market Conduct Rules, Regulatory Sandbox, Real estate investment trusts (REITs) guidelines, and guidelines for Self-Regulatory Organizations. Additionally, significant milestones were reached, including the SEC's accession to the International Organisation of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMOU). Noteworthy advancements also encompass the finalization of draft guidelines for securities lending and borrowing, as well as for margin trading and asset-backed securities. The SEC also expanded intermediary training through the Ghana Investment and Securities Institute (GISI). Out of the 33 initiatives set forth, 13, representing 39 per cent of the total, were completed during Phase 1.

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The CMMP Secretariat has been established to streamline operations and ensure effective coordination. The CMMP Secretariat was made functional to coordinate the activities of the working groups. As the CMMP transitions into Phase 2, focused on enhancing market competitiveness spanning the period 2023 to 2025, outstanding initiatives from Phase 1 have been carried forward. Presently, Phase 2 stands at a 16 per cent completion status, with seven (7) initiatives, out of a total of forty-four (44) initiatives, in progress (comprising 24 original initiatives and 20 transferred initiatives).

Building upon the CMMP, the SEC commenced the implementation of a 5-year strategic plan. The SEC set into motion a strategic endeavour to strengthen its operational capabilities in 2023. As the natural enabler of the CMMP implementation, the SEC initiated measures to enhance its efficiency and effectiveness, aligning with its regulatory mandate. In a testament to its commitment to excellence, the SEC unveiled a transformative five-year strategic plan, marking a significant milestone in its 25-year odyssey. This blueprint delineates five strategic goals:

a. Deepen and Expand Markets and Products;
b. Develop and Enhance Market Awareness and Education;
c. Enhance and Strengthen Market Infrastructure;
d. Develop a Robust Legal and Regulatory Architecture; and
e. Enhance the Capability and Capacity of the SEC.

To achieve these strategic imperatives, a comprehensive set of 60 strategic initiatives were developed. These initiatives underscore the substantial commitment required to navigate the journey ahead and SEC's dedication to realizing its vision as a top securities market regulator in Africa.

The SEC in 2023 placed a high priority on investor education and organized a series of comprehensive outreach initiatives aimed at enhancing financial literacy. Among these efforts, "Time with the SEC," the student edition held in Kumasi, emerged as a noteworthy endeavour, attracting a diverse array of attendees from the educational sector. The event brought together students from various secondary institutions in Kumasi and its environs, teachers, and other educational stakeholders to engage in discussions on pertinent sector-related issues. As the flagship investor education programme, the event centred on enlightening students about the Ghanaian capital market and key investment concepts. Topics covered ranged from the SEC's role in Ghana's financial sector to collective investment schemes, discerning Ponzi or Pyramid schemes, and career guidance in the securities industry. The interactive forum provided an invaluable platform for students and educational stakeholders to directly engage with the SEC, vocalizing their concerns and queries. Additionally, in alignment with its dedication to promoting financial literacy, the SEC actively participated in the National Financial Literacy Campaign spearheaded by the Ministry of Finance in the initial half of 2023. This involvement served as a platform for raising awareness and disseminating essential information to the wider populace, thereby contributing to the advancement of capital market awareness at a national level.

In 2023, the SEC remained committed to deepening and increasing participation in the capital market. To promote listings, the SEC continued with its collaboration with the GSE and State Interests and Governance Authority (SIGA) in a joint committee to work on the listing of some SOEs. The SEC and GSE also worked with the Minerals Commission and Chamber of Mines to implement listing requirements under the Minerals and Mining (Local Participation) Regulations, 2020. Additionally, the SEC also engaged other private sector companies to increase participation in the capital market.

The SEC continued to strengthen its oversight of the securities market through the implementation of a Risk-Based Supervision (RBS) framework. The transition from the traditional compliance based supervisory approach to the RBS approach reaffirms the SEC's dedication to adaptability and responsiveness towards prioritizing the preservation of market integrity and stability in an ever-changing financial landscape. In alignment with this shift, the SEC's embrace of Regulatory Technology (Reg-Tech) and Supervisory Technology (Sup-Tech) solutions through the Regulatory Compliance Portal represents a balance between fostering financial innovation and ensuring robust regulatory oversight.

Regulatory measures were implemented to ensure the smooth operation and continuity of businesses within the market. These initiatives were geared towards strengthening the systemic resilience of the capital market while maintaining uninterrupted critical services and meeting business obligations. Furthermore, to promote business continuity among market operators, the SEC formulated guiding principles in alignment with the high-level principles established by the Basel Committee of Banking Supervision, IOSCO, and the International Association of Insurance Supervisors. These principles aim at facilitating the development, testing, and periodic review of business continuity plans by market participants. The SEC also conducted a simulation exercise on an enterprise-wide scale. This exercise rigorously tested the business continuity

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resilience of the SEC, leveraging the Business Continuity Plan (BCP) document.

In 2023, the SEC joined the Sustainable Banking and Finance Network (SBFN). This strategic alliance underscores the SEC's commitment to fostering sustainability and responsible financial practices. Through this partnership, the SEC and SBFN endeavour to elevate sustainability standards by implementing policy actions and regulatory measures, while also cultivating an environment conducive to innovation and progress in sustainable finance. Membership in the SBFN affords the SEC invaluable opportunities to engage in knowledge-sharing and collaboration with 63 member countries. This exchange of technical resources is aimed at propelling sustainable finance initiatives across diverse financial market segments, including capital markets, institutional investment, and insurance. By actively participating in the SBFN, the SEC gains a platform to advocate for sustainable finance principles on the global stage, contributing to impactful discussions and initiatives within the G20 Sustainable Finance Working Group.

Looking ahead, the SEC is anticipating a series of exciting developments in the capital market space that promise to deepen the market and expand the investment universe. In 2024, the SEC, in collaboration with the Ministry of Finance and supported by the African Development Bank, will issue the following key guidelines;

1. Securities Lending and Borrowing Guidelines,
2. Asset Backed Securities Guidelines,
3. Foreign Funds Guidelines,
4. Market Making Guidelines, and
5. Margin Trading Guidelines.

This raft of guidelines will contribute to the rapid transformation of the Ghanaian capital market with a comprehensive regulatory framework that will propel Ghana to be classified as an Emerging Market by 2028, all things being equal.

The SEC, with the support of the World Bank, is undertaking a review of the Securities Industry Act 2016 (Act 929). This review aims at addressing existing challenges within the Act and ensuring the regulatory framework aligns with international best practices. The review will also focus on compliance with the IOSCO's Enhanced Multilateral Memorandum of Understanding (EMMoU) concerning consultation, cooperation, and information exchange.

5.3 Measures to Mitigate Emerging Risks

The SEC intensified public education to address the pronounced decrease in trading of Government of Ghana (GOG) instruments amid the DDEP and market uncertainties. The DDEP related challenges resulted in a notable decline in investor interest, thereby exerting adverse effects on the fixed-income market and diminishing liquidity for customers of CIS. The associated reduction in trading volumes adversely impacted the profitability of brokers operating on the GFIM, as well as the revenue streams of market operators. In response to these challenges, the SEC intensified investor education initiatives aimed at fostering a long-term perspective on investments. The capital market education initiative dubbed "Time with the SEC" took place in Kumasi. The National Financial Literacy Programme sensitized the public on topics such as "Understanding the role of the SEC in the capital market" and "adopting a long-term view on investments". Such efforts were crucial for enhancing investor confidence and resilience amidst market fluctuations and uncertainties. Additionally, the establishment and utilization of the GFSF presented an invaluable recourse to alleviate liquidity constraints within the financial ecosystem, by providing essential support during periods of market stress.

Regulatory reliefs were introduced while market operators were required to submit recapitalization plans to mitigate the risk of insolvency following the DDEP. In response to the adverse impact of the DDEP, the SEC temporarily relaxed capital requirements and certain regulatory mandates for market operators. These regulatory interventions were designed to provide immediate relief to market operators, allowing them to fulfil their financial obligations to sustain uninterrupted operation. By easing regulatory burdens on market operators, the SEC sought to facilitate the preservation of market stability during a period of heightened volatility and uncertainty. While the reliefs were being implemented, the SEC directed undercapitalised market operators to submit recapitalisation plans and implement same. The GFSF is also available to provide recapitalisation support for undercapitalised market operators that fully participated in the DDEP.

The SEC strengthened its regulatory oversight to address emerging reputational risks. The combination of the sector's illiquidity, sovereign default concerns, and waning confidence in the capital markets posed reputational risk for the SEC and the industry. The SEC addressed this challenge through rigorous regulatory oversight, ensuring compliance with investment guidelines, regulations, and governance practices to uphold market integrity and rebuild investor trust.

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The SEC is developing a Risk-Based Supervision framework to instil a culture of proactive risk management and improve regulatory compliance. To strengthen supervisory oversight and mitigate systemic risks, the SEC embarked on the development of a comprehensive Risk-Based Supervision (RBS) framework. Supported by the African Development Bank, this project, initiated in 2022, aims at helping the SEC transition from the conventional compliance-based supervision methodologies. By prioritizing investor protection, market integrity, and financial stability, this framework will serve as a cornerstone for enhancing regulatory effectiveness. As part of this project, a digital Regulatory Compliance Portal (RCP) is to be developed. This innovative platform is poised to revolutionize regulatory oversight efforts by enabling enhanced analytics and streamlined offsite supervision capabilities. Significant progress has been made, including a review of the draft framework, assessment of data and IT requirements for the RBS and RCP, and commencement of training with pilot testing.

The low trading volumes in DDEP bonds prompted the SEC to pursue a multi-pronged approach aimed at improving market activity. A key concern was ensuring consistent pricing methodologies. To address this, the SEC engaged the GFIM to establish a standardized approach to the pricing of securities on the GIFM. Furthermore, the SEC identified liquidity issues as a challenge to market activity. Engagements at the Financial Stability Council (FSC) and with the BoG highlighted these liquidity concerns. As a result, the BoG issued enhanced directives requiring Primary Dealers (PDs) to submit market-reflective indicative prices of government securities daily. This is primed to facilitate price discovery in the market. Lastly, the SEC is finalizing the draft Guidelines for Securities Lending and Borrowing. These guidelines are expected to establish a framework that enhances liquidity in the fixed income markets.

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06 Assessment of the Pensions Industry

6.1 Performance of the Pensions Industry

Introduction

The Pensions Industry's AUM grew by 33 per cent in 2023. The Three-Tier Pension Scheme's AUM at the end of December 2023 stood at GH¢61.8 billion as compared to GH¢46.6 billion recorded in 2022. Thus in 2023, pension funds increased by 33 per cent compared to the 20 per cent growth recorded in 2022. The increase in growth is attributable to the outcome of the alternative offer to pension funds which saw a high participation rate of about 95 per cent, as well as the government's commitment to meeting its payments obligations under the offer. Also, the government's partial redemption of contributions and the prosecution of employers defaulting on the mandatory pension schemes contributed to the surge in AUM.

Figure 6.1: AUM Distribution

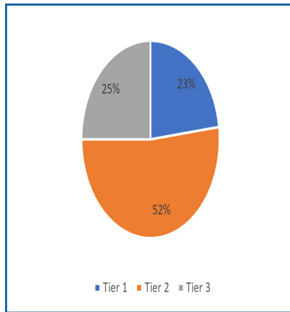
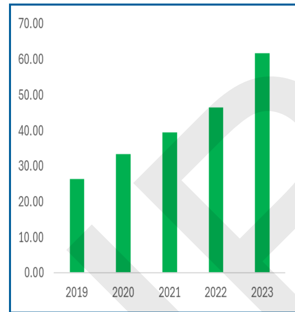


Figure 6.2: Growth of Pension Funds



Source: National Pensions Regulatory Authority

Private Pension Fund

The Private Pension Funds was the main driver of the growth witnessed in the industry. Total private pension funds grew by 32 per cent in 2023 compared to 26 per cent recorded in 2022. The year-end total for private pension funds under management for 2023 was GH¢46.5 billion compared to GH¢ 35.3 billion recorded in 2022 as shown in Figure 6.3. The sustained growth in private pension funds is attributable to a better return on investments, and the prosecution of employers defaulting on Tier 2 contributions which increased inflows. Investments in private pension funds was held mostly in government securities constituting a total of 80 per cent as shown in Figure 6.4.

Figure 6.3: Private Pension Funds (Tier 1 & Tier 2)

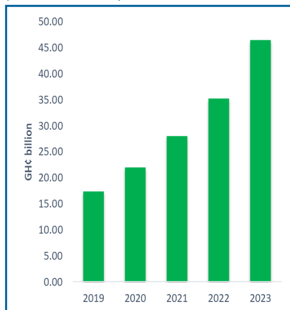
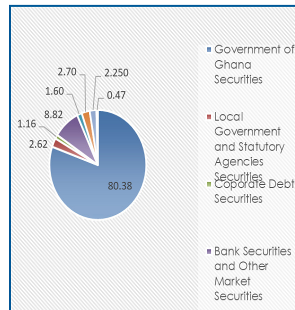


Figure 6.4: Allocation of Private Pension Funds



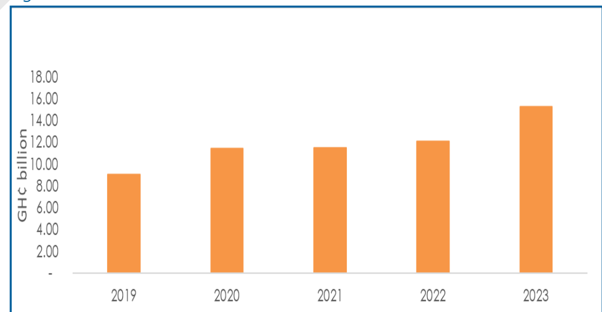
Source: National Pensions Regulatory Authority

Public Pension Funds

Pension funds under the Basic National Social Security Scheme (BNSSS) grew relatively stronger compared to the recent past. From a total AUM of GH¢12.11 billion in 2022, the year-end AUM for 2023 was GH¢15.30 billion arising from payment of contribution arrears by the government. This represents a 26.3 per cent increase in 2023, as compared to a 4.9 per cent increase recorded in 2022.

The major risk exposures of the scheme remain the private and public indebtedness to the scheme, increasing benefit payments, and the low real rate of investment returns as shown in Figure 6.6 and Figure 6.7. Total benefit payments increased by 33 per cent in 2023 from 2022. However, the five-year annual average compounded growth in benefit payments stands at 16.6 per cent. This is attributable to the 25 per cent indexation set for 2023 benefit payouts. Although the government has settled some of the contribution arrears, the scheme remains exposed to government and private-sector employer indebtedness, which continues to threaten the sustainability of the scheme. Additionally, the scheme's vulnerability to increasing benefit payments and the low real rate of investment returns remains high.

Figure 6.5: Public Pensions Fund Tier 1



Source: National Pensions Regulatory Authority

Figure 6.6: Benefit Payments

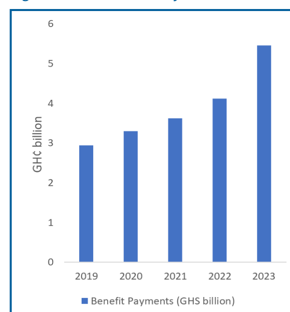
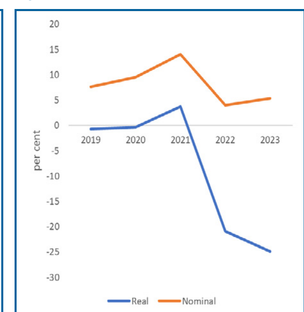


Figure 6.7: Rate of Returns



Source: National Pensions Regulatory Authority

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Figure 6.8 Fund Ratio of the BNSSS

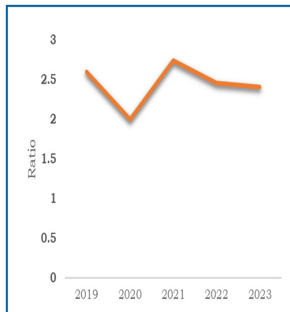
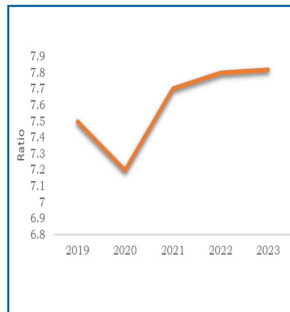


Figure 6.9 Dependency ratio of the BNSSS



Source: National Pensions Regulatory Authority

6.2 Regulatory Developments

The NPRA in partnership with industry players and other regulators implemented several key initiatives as follows:

Full deployment of the Risk-Based Supervision Software. The NPRA commenced the rollout of its regulatory software after deploying the transitional model in 2023. The Authority is undergoing a system customisation exercise to tailor the system to meet its operational and regulatory needs. Full deployment is expected to be completed by the next year.

Development of an investment guideline for the BNSSS. The NPRA has developed an investment guideline for the BNSSS to guide how the scheme's assets are allocated among asset classes prescribed by the guideline. This is to ensure prudent management of the scheme's funds, the safety of assets and fair returns on the funds.

6.3 Measures to Mitigate Emerging Risks

In the Pension's Industry, key emerging risks include increase in impairment of pension assets, related party dealings, government defaulting on contributions and heavy concentration of pension assets in GOG securities. The table below outlines measures being implemented by the NPRA to contain these emerging risks.

Table 6.1 Emerging Risks and Mitigating measures

No.	Emerging Risk	Mitigation Measures
1	Related party dealings (a conglomerate can obtain a Trustee License, be a registered Pension Fund Manager and Pension Fund Custodian).	Enforcement of corporate governance guidelines and related sanctions applied.
2	Increase in impairment of pension assets arising from modification losses (DDEP), provisions and actual losses.	Issuance of impairment guidelines based on IFRS9. Rebalancing of portfolio into other asset classes key with new flows.
3	Government defaulting on Tier 1 and 2 contributions.	Continuous negotiation with the Government to honour payments.
4	Pension funds heavily investing in GoG Securities.	Improving the capacity of trustees and pension fund advisors to diversify and rebalance. Regulatory forbearance regarding rebalancing.

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07 Assessment of the Resilience of the Financial Sector

7.1 Stress Tests of the Banking Industry

Overview

The stability of the banking sector remains critical in preserving financial system stability in Ghana. The banking industry accounts for over 70 per cent of the financial sector's asset size and remains heavily interconnected with the securities, insurance, and pensions industry. Given this background, assessment of the resilience of the financial system focuses on tail events/ shocks to the banking sector.

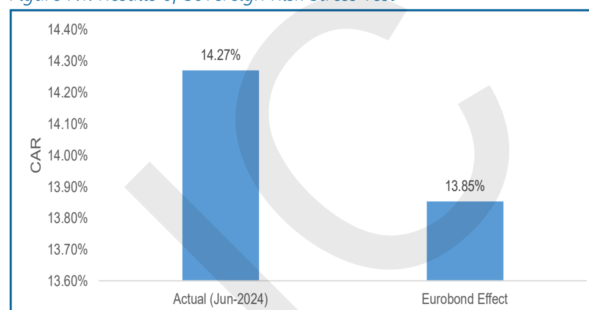
The assessment of banking sector resilience focused on sovereign, credit, market, and liquidity risks. In 2023, stress test exercises focused on assessing the impact of the debt restructuring, rising non-performing loans, extreme shifts in the exchange and interest rates, and liquidity shocks on the banking sector. In this report, we present the stress test assumptions and findings utilising June 2024 macro-financial data.

Sovereign Risk Assessment

The sovereign risk assessment evaluated the impact of the debt restructuring on the banking sector. In 2023, the BOG continued to assess the resilience of the banking sector to shocks emanating from the sovereign debt restructuring(DDEP Phase 1, DDEP Phase 2 and the potential restructuring of Eurobond). The severe effects from the stress tests underscored the roll out of relief measures by the BOG to help cushion banks against the full impact of the debt restructuring. The impairment arising from the domestic debt restructuring (DDEP Phase 1&2) partly led to the decline in CAR from 19.6 per cent as at end-December 2021 to 13.87 per cent as at end-December 2023. The decline in CAR over the period was largely moderated by the relief measures, sustained recapitalisation efforts of undercapitalised banks and strong recovery in earnings following the DDEP Phase 1. In this report, we evaluate the impact of the Eurobond restructuring on the solvency conditions of banks based on the agreement-in-principle with representatives of bondholders[10].

The restructuring of Eurobonds is expected to adversely impact the solvency of banks. Although significant provisions had been booked by banks against Eurobonds, the stress test revealed that banks would have to book additional impairments which has implications for solvency conditions. The industry CAR could reduce when banks fully book the additional impairments arising from the restructuring of Eurobonds. Going forward, the rebound in profitability would continue to moderate the impact of the Eurobond restructuring on solvency.

Figure 7.1: Results of Sovereign Risk Stress Test



Source: Bank of Ghana

Credit Risk Stress Test

The credit risk stress test estimates the sector's solvency position following an extreme but plausible deterioration in the quality of loan assets. The impact of the deterioration in credit quality on the solvency position is estimated using the loan migration model. The loan migration model stresses banks' loan portfolio through reclassification of loans to reflect a higher degree of loan impairments under the following assumptions:

a. Average annual growth rate in gross loan covering over the past 5 years persists in the short-term (one year ahead);
b. The migration rate shocks across the loan categories (current, other loans especially mentioned, substandard, doubtful, and loss) were estimated as follow:
   - → **Mild shock:** 1 standard deviation (SD) from the mean migrations since 2010, with an additional assumption that 5% of current loans migrate to doubtful; and
   - → **Severe shock:** 2SD from the mean migrations since 2010, with an additional assumption that 10% of current loans migrate to doubtful.
c. Loan collaterals are neither considered nor deductible from the loan except for cash collateral; and
d. The current provisioning rules are maintained.

The banking industry's resilience to heightened credit risk following the full impact of the debt restructuring is

[10 https://mofep.gov.gh/sites/default/files/news/GOG-Cleansing-Draft_v2.pdf

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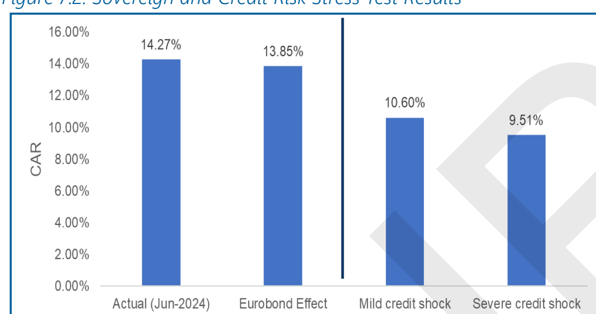
relatively weak. Non-performing loans remain elevated, reflecting the lagged effect of the COVID-19 pandemic and the recent macroeconomic challenges. The stress test revealed that if macroeconomic recovery is largely slow-paced leading to a mild deterioration in credit quality, CAR may reduce further over a one year horizon. Solvency conditions could marginally reduce below 10 per cent if macro-financial conditions one year ahead led to severe deterioration in credit quality. The results reinforce the need to ensure a robust macroeconomic recovery in the near to medium term. To contain credit risks, banks would necessarily have to maintain a sound credit risk management system and adhere to the BOG directive on the suspension of dividend payments while frontloading recapitalisation plans. The BoG remains committed towards continuous implementation of measures to reduce NPLs and mitigate credit risk including working with banks improve the use of credit reporting and collateral registry system and increased onsite supervision by undertaking periodic thematic loan book reviews of banks to ensure that losses are fully recognised early and accounted for.

Figure 7.2: Sovereign and Credit Risk Stress Test Results



Source: Bank of Ghana

Interest Rate Stress Test

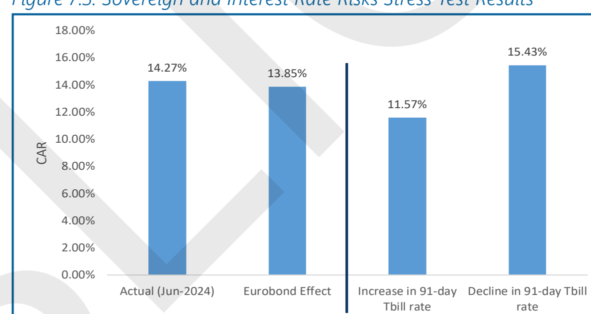
The interest rate stress test utilizes the repricing gap model. The interest rate shock assesses the mismatches that arise from interest rate sensitive assets and liabilities over a specified time horizon. The scenario utilizes the repricing gap model which calculates the changes in interest income and expenses resulting from the "gap" between the holdings of assets and liabilities within the assumed repricing horizon. The "gap" in each time-to-repricing bucket shows how net interest income will be affected by a given change in interest rates.

The model is simulated under the following assumptions:

i. The 91-day treasury bill rate is the benchmark for setting the interest rate;
ii. Interest rate shock amounting to +/- 2 standard deviations of the average 91-day treasury bill rate (16.0 and 11.1 percentage points increase and decrease respectively) from 2019Q1 to 2024Q2 were applied;
iii. The shock takes the form of a parallel shift of the yield curve for all interest-bearing instruments across all currencies; and
iv. The time-to-repricing is up to one year (horizon).

The banking sector appears robust to interest rate risk. The results of the exercise revealed that a 16.0 percentage point increase in interest rate persisting over the next year may lead to a decline in CAR from a post-Eurobond restructuring level of 13.85 per cent to 11.57 per cent. The extreme decline in interest rates may improve the solvency conditions in the banking sector given that more liabilities would reprice over the one-year horizon compared to assets. Accordingly, a steady decline in interest rates is expected to improve the solvency conditions in the banking industry.

Figure 7.3: Sovereign and Interest Rate Risks Stress Test Results



Source: Bank of Ghana

Exchange Rate Stress Test

The exchange rate risk stress test utilises the net open position approach. Exchange rate risk focuses on shocks to assets and liabilities emanating from foreign exchange market volatilities. The scenario assessed the direct impact of variations in the exchange rate on the banks' Net Open Position (NOP). The main assumptions include:

A change in the exchange rate leads to a proportional change in the domestic currency value of the institutions' NOP; and

i. A worst-case scenario representing +/-2.0 SD of the mean depreciation/ appreciation of the US Dollar/Cedi exchange rate from 2019Q1 to 2024Q2. The estimated annual exchange rate shocks were;
   a. +2 SD - 41.8 % depreciation
   b. -2 SD - 11.2 % appreciation

Exchange rate fluctuations have minimal impact on solvency conditions in the banking sector. The result indicates that an unexpectedly large movement of the Ghana Cedi against the US Dollar may have minimal direct impact on the solvency of banks, reflecting the existing limits on the NOP within the banking industry.

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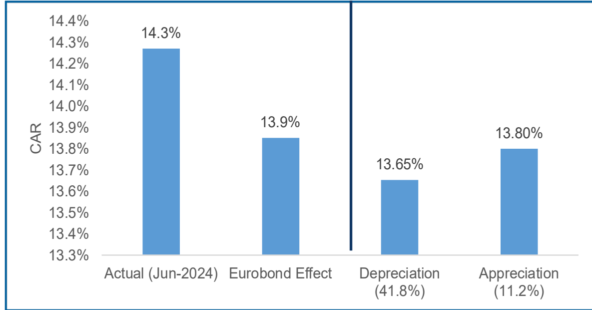
Figure 7.4: Sovereign and Exchange Rate Risks Stress Test Results



Source: Bank of Ghana

Liquidity Stress Test

The liquidity risk stress test utilises the systemic withdrawal model which assumes a system-wide run-on banks over a specified number of days. The systemic withdrawal model evaluates the impact of a panic withdrawal on the liquidity positions of banks. Specifically, it assesses the liquidity of banks after an assumed run on the bank (up to 30 days). An institution with sufficient liquidity to meet the withdrawal needs during a bank run is deemed to have survived the shock. The model was run under the following assumptions:

a. Deposits withdrawn per day: 1%, 2%, 3%, or 4%
b. Number of days after the start of the systemic event - 30
c. Liquid assets available in a day-95%
d. Other assets available in a day- 0%
e. Percentage of Government bonds assumed to be illiquid - 0% or 100%
f. Claims on foreign banks illiquid in foreign currency: 0%

Liquidity risk remains well-contained in the banking industry, provided Government of Ghana (GoG) bonds are liquid. The stress test revealed that most banks would survive daily deposit withdrawals of 1 per cent to 4 per cent for 30 days if the GoG bonds market was liquid. However, most banks would not survive a run of more than 1 per cent of daily deposits withdrawal for 30 days, in case the GoG bond market is illiquid,

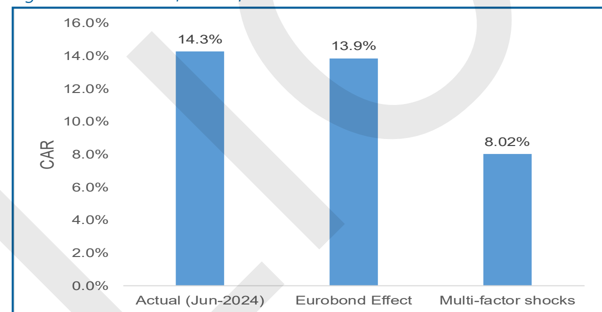
Table 7.2: Results of Liquidity Stress Test: Bank run model.

The assumed porportion of GoG bonds is illiquid	No. of Banks Surviving Risk				
	Baseline	1% DW	2% DW	3% DW	4% DW
0%	23	23	23	20	18
100%	23	21	17	10	6

Multifactor Stress Test

The multi-factor stress test combined system-wide deterioration in credit quality, exchange rate depreciation, and interest rate increase. The results indicate that solvency conditions in the banking sector may worsen amid debt restructuring, severe loan impairment, cedi depreciation, and a rise in interest rates. Following a post-Eurobond restructuring multifactor shock, the stressed CAR of the industry stood at 8.01 per cent, well below the revised minimum CAR threshold of 10 per cent. The results suggest that improvement in asset quality, exchange rate stability, and steady decline in interest rates over the next one year would be critical towards banking sector soundness and resilience.

Figure 7.5: Results of multi-factor stress test



Source: Bank of Ghana

Summary and Outlook

The banking sector appears somewhat resilient to plausible shocks on the back of high profitability; however, credit shocks remain a concern. The improvement in stability was primarily due to the strong recovery in earnings in 2023 amid the maintenance of the DDEP reliefs, ongoing recapitalisation and suspension of dividend payment. Despite the broad resilience, a few institutions severely impacted by the DDEP remain fragile to further debt restructuring and other downside risks including an increase in non-performing loans, interest rate hikes, and heightened withdrawal pressures. Recapitalisation by banks through retention of 2023 profits and fresh capital injection either through shareholders and/ or the Ghana Financial Stability Fund (GFSF) are expected to improve the solvency of the banking sector to withstand Eurobonds restructuring and support macroeconomic recovery. The outlook would largely be influenced by sustained profitability, sound credit risk management, adherence to the recapitalisation plan and the directive on suspension of dividends payments, continuous support from the GFSF, and robust macroeconomic recovery. While the BOG continues to maintain the DDEP reliefs, it is closely working with the industry to quickly recapitalise and address downside risks to the outlook.

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7.2 Assessment of Capital Market Resilience

Overview

Assessment of the equities market focuses on the performance of the GSE using the Stock Market Performance Index (SMPI). The SMPI captures four dimensions of the GSE performance: – size, access, efficiency, and stability of the market. These indices provide a broader view of the status of the bourse and help identify potential risks that may arise in the market. An exchange with increasing size, efficiency, and stability will broadly be more resilient to shocks. On the contrary, a decreasing access dimension representing a lower market concentration indicates better resilience to shocks.

Size

The size dimension of the SMPI reduced in 2023. The size dimension of the stock market captures the resource mobilization potential of the market. At end-December 2023, the index for the size dimension declined to 0.04 from 0.18 recorded for same period in 2022. The reduction was driven by declines in the total market capitalization to GDP ratio, the turnover ratio, and the total value of stocks traded to GDP.

Access

Stock market activities appeared concentrated on few stocks making it vulnerable to swings in these equities. The access dimension captures market concentration and is measured by the Herfindahl- Hirschman Index (HHI), the share of the largest ten firms in terms of total market capitalization and the share of the top ten firms in terms of total trading volumes. At end-December 2023, the index for the access dimension increased to 0.35 from 0.31 at end-December 2022. The increase in the index was on the back of a 2 per cent rise in HHI from 1664.86 in December 2022 to 1701.95 in December 2023, an indication of a rise in market concentration.

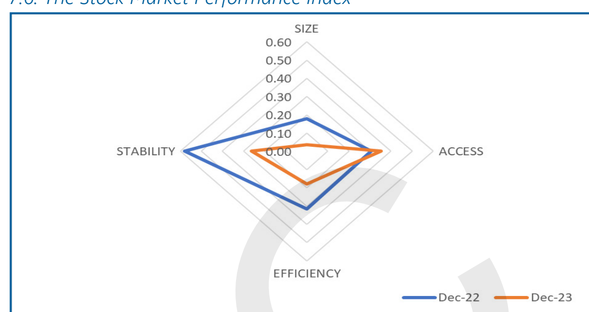
Efficiency

The proportion of listed equities that recorded no price change increased in 2023. The percentage of shares with zero returns is used to measure pricing efficiency on the bourse. At end-December 2023, the index for the efficiency dimension declined to 0.18 from 0.31 in the previous year. The decline in efficiency reflects the increase in the percentage of shares with zero returns, to 40 per cent at end-December 2023, from 32.25 per cent at end December 2022.

Stability

The stability dimension of the stock market reduced in 2023. Stability is measured by the price-to-earnings ratio, price volatility index, and the percentage of stocks with negative returns. At end December 2023, the index for the stability dimension decreased to 0.26 from 0.58 at end December 2022. The decline in the stability index was on account of a decrease in the price-to-earnings ratio by 29.20 per cent, complemented by an increase in the volatility indicator by 8.18 per cent.

7.6: The Stock Market Performance Index

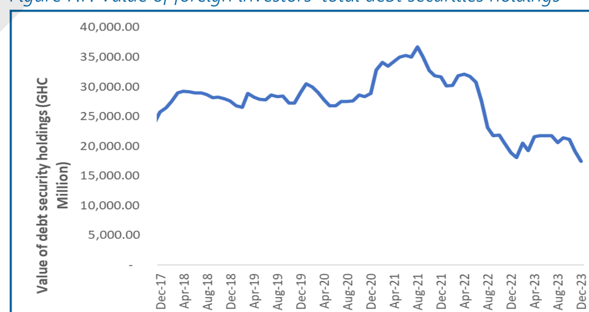


Source: Ghana Stock Exchange

Risk of Capital Flight

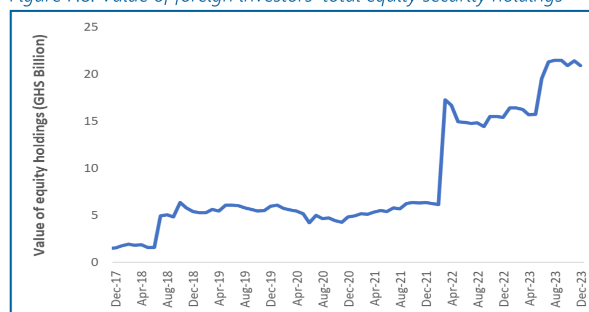
The participation of foreign investors in the equity market improved, however, they exited the debt market in 2023. Foreign investors' debt holdings decreased to GH₵17.47 billion at end-December 2023, as compared to GH₵18.70 billion at end-December 2022. This development was partly due to the DDEP which affected investor confidence, inducing sell-offs. The value of foreign investors' equity holdings increased to GH₵20.90 billion at end-December 2023, from GH₵15.43 billion at end-December 2022. This reflected the improved performance of the stock market.

Figure 7.7: Value of foreign investors' total debt securities holdings



Source: Central Securities Depository

Figure 7.8: Value of foreign investors' total equity security holdings



Source: Central Securities Depository

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08 Special Features

8.1 Key Developments in the Collateral Registry in 2023

Introduction

The Collateral Registry plays a crucial role in promoting financial stability through promoting responsible lending, improving access to credit, and supporting credit risk management. The Collateral Registry, established by the Bank of Ghana in 2010, and currently operating under the re-enacted Borrowers and Lenders Act, 2020 (Act 1052), serves as an important infrastructure in Ghana's credit market. The main functions of the Collateral Registry are:

a. To provide a platform for the registration of security interests.
b. To provide a platform to conduct searches on collateral.
c. To facilitate the enforcement of security interest upon default by borrowers.
d. To perform other post-registration activities, i.e. Discharges, Amendments, Notice of default, and transfer of security interests, among others.

Key Developments in the Secured Lending Space in 2023

Lenders are exposed to credit risks, and this can be minimised through collateralised lending. Collateralised lending involves the use of a borrower's or guarantor's assets or properties as security for the repayment of a loan. This allows lenders to create a security interest over assets presented as collateral by borrowers. The Collateral Registry has encouraged lenders to accept diverse movable and immovable properties as collateral in secured credit delivery. Businesses and individuals can use a wide range of assets such as inventory, vehicles, plant and equipment, receivables, among others to secure loans from lending institutions. Business entities that do not have real estate or land but have movable assets as their main capital stock can easily access credit.

The BOG introduced several initiatives and innovations to ensure the efficiency of the Registry's operations as well as meet international best practices. These initiatives and innovations include:

a. The periodic review and upgrade of the Collateral Registry's System;
b. Continuous training for users and Regulated Financial Institutions (RFIs);
c. Collaboration with other registries including Lands Commission, Drivers and Vehicle Licensing Authority (DVLA), and the Office of the Registrar of Companies (ORC) for the effective implementation of Act 1052;
d. Sensitisation of key stakeholders in the collateral enforcement process comprising Judges, and personnel of Ghana Police Service, Ghana Association of Auctioneers; and
e. The periodic publishing of data and information on secured loans such as Collateral Registry Quarterly brief.

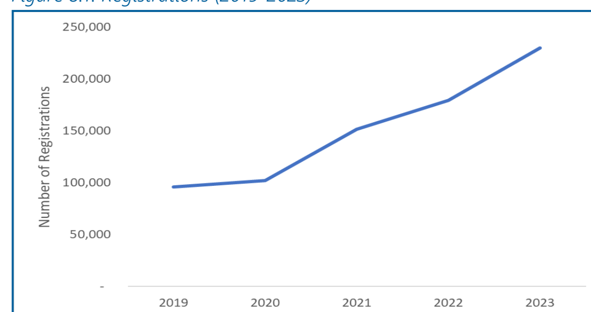
[2] *Article produced by the Financial Intelligence Center (FIC)*

In 2023, these innovations significantly contributed to the performance of the Collateral Registry. The volume of security interest registrations, number of discharges, and access to finance for females, and businesses owned by females increased during the period under review.

Registration of Security Interests

Registration of security interest increased in 2023. In 2023, registration of security interest with the Collateral Registry increased by 28.1 per cent to 229,903 compared with 179,441 recorded in 2022. The Commerce and Finance sector received the highest proportion of secured loans registered during the review period (Table 8.1). The increase in the number of secured loans signifies lenders' willingness to grant loans and their confidence in the collateral registry to assist with the mitigation of credit risk in the event of a default.

Figure 8.1: Registrations (2019-2023)



Source: Bank of Ghana

Table 8.1: Sectoral Distribution of Secured Loans

Sector of Economy	2022	2023
Commerce and Finance	80.80%	85.20%
Services	6.60%	4.60%
Miscellaneous	7.80%	4.80%
Agriculture, Forestry and Fishing	2.10%	2.60%
Construction	0.80%	1.00%
Transport and Haulage	0.80%	0.60%
Cottage Industries	0.60%	0.80%
Manufacturing	0.30%	0.20%
Electricity, Gas and Water	0.10%	0.10%
Mining and Quarrying	0.10%	0.10%
Information and Communications	0.00%	0.00%

Source: Bank of Ghana

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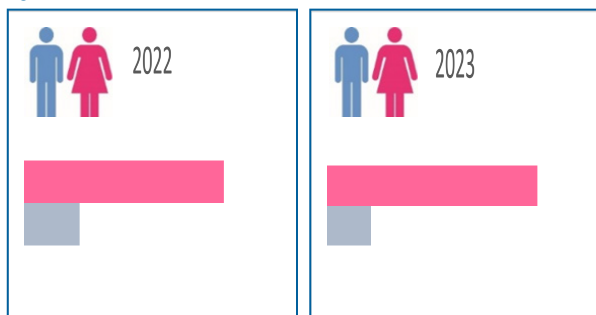
Loans Registered for the Year 2023

The number of secured loans granted to females and businesses owned by females has witnessed a steady growth. In 2023, the total number of registered secured loans granted to females and businesses owned by females was 188,439 representing 81.9 per cent of total secured loans registered. Total secured loans granted to Males and businesses owned by males stood at 39,272 accounting for 17.1 per cent of total secured loans.

Figure 8.2: Gender distribution of secured loans (Volume)

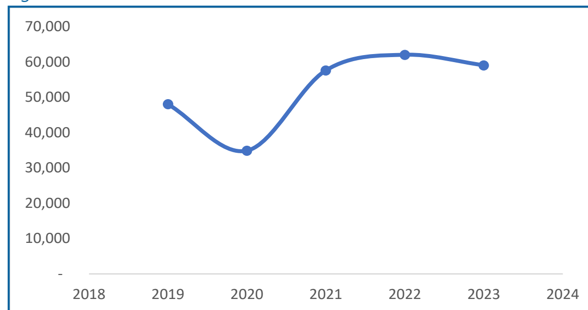


Despite the increase in the volume of secured loans granted to women, males and businesses owned by males received the highest value of secured loans. In 2023, the total value of secured loans granted to males and businesses owned by males was GH₵13.4 billion representing 79.3 per cent of the total value of loans granted while, the total value of secured loans, granted to females and businesses owned by females stood at GH₵3.5 billion representing 20.7 per cent. The above development could be attributed to the type and value of assets owned and presented as collateral by women. Data at the Registry revealed that account receivables, consumer and household goods, and inventory and stock of goods form the major types of collateral used by females and businesses owned by females to secure credit. These types of assets may not be considered valuable assets to help females access loans of high value.

Searches

The number of searches on the registration status of collaterals reduced in 2023. The total number of searches conducted in 2023 was 59,103 compared to 62,073 recorded in the year 2022 representing a 4.8 per cent year-on-year decline. Failure on the part of RFIs to conduct searches poses the risk of accepting assets that have been encumbered, resulting in a potential risk of increased NPLs in the event of a default by a borrower. To address the identified risks in this area, the Collateral Registry has intensified its sensitisation efforts to create awareness on the benefit of conducting searches.

Figure 8.3: Trend in Searches Conducted (2019-2023)

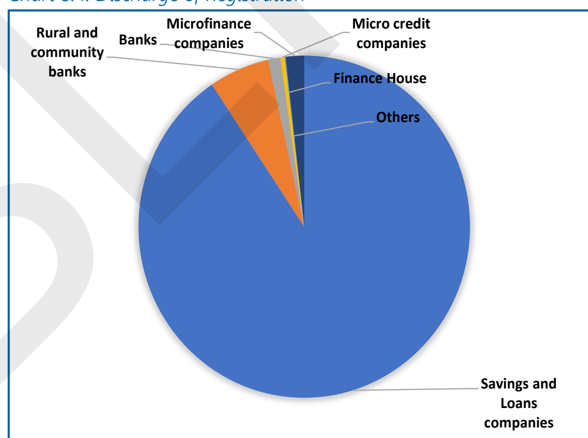


Source: Bank of Ghana

Discharge of Registrations

Discharge of registrations increased in 2023. In 2023, total collateral discharges increased significantly by 205.2 per cent from 50,289 discharges in 2022 to 153,470 mainly due to the increase in loan repayments. This growth was mainly driven by savings and loans companies which accounted for 90.6 per cent (139,119 discharges) of total discharges recorded.

Chart 8.4: Discharge of Registration



Source: Bank of Ghana

Realisation of Security Interests

The Memorandum of No Objection issued to lenders declined. In 2023, the Registry received a total of 444 requests for the issuance of a Memorandum of No Objection Certificates from lending institutions. Out of the 444 requests, 314 Memorandum of No Objection certificates were issued compared with 390 issued in 2022. Savings and Loans Companies remained the highest recipient of the Memorandum of No Objection certificates with 155 approved realisation requests, followed by banks with a total of 119 approved realisation requests (see Table 8.2)

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Table 8.2: Memorandum of No Objection issued.

Lender Type	2022	2023	Change (%)
Savings and Loans Companies	271	155	-42.80%
Banks	85	119	40.00%
Microfinance Companies	17	19	11.80%
Others	5	11	120.00%
Micro Credit Companies	4	5	25.00%
Finance Houses	4	3	-25.00%
Rural and Community Banks	4	2	-50.00%
Total	390	314	-19.50%

Source: Bank of Ghana (2023)

Conclusion

The Registry continues to deepen public awareness on the benefits of its activities. The Registry has improved transparency in lending by making available readily accessible data on collateral via its web-based system as well as facilitated lenders to make more informed decisions concerning accepted collateral aimed at reducing the risks associated with credit. Going forward, the Registry intends to expand its knowledge base through sensitisation and public awareness programmes, particularly for the borrowing public and selected administrative staff of the Judicial Service that are known to play a key role in the collateral enforcement process.

8.2 Emerging Risks in the Fintech and Payment Systems Sector

Ghana's payment space remained buoyant and facilitated commercial and financial transactions across a spectrum of retail and wholesale payment systems. Broadly, all payment streams recorded impressive performance in line with BOG's payment digitalisation and cash-lite programme. This reflected in the total value of GH₵3.44 trillion transactions settled on the Ghana Interbank Settlement (GIS) system in 2023 and represented an increase of 48.96 per cent over the value settled in 2022.

Similarly, the performance of instant retail payment systems, including mobile money was impressive. Mobile money transactions increased from GH₵5.07 billion in 2022 to GH₵6.81 billion in 2023. Further, the uptake in the mobile payments either interoperable through Ghana Interbank Payment and Settlement System (GhIPSS) or enabled by banks' own applications increased at a remarkable rate of 51.54 per cent in 2023. The diverse portfolio of domestic payments options (for instance, the GIP, E-zwich, gh-link, internet and mobile banking, GhQR, GhanaPay, and ACH Direct Debit and Credit) coupled with several inward remittance partnerships (for instance, 7 partnership arrangements between banks MTOs were approved to terminate inbound remittances directly into mobile wallets and bank accounts) approved by the Bank of Ghana expanded access to a variety of affordable, convenient, and user-centric digital financial services, as shown in some of the indicators below:

E-zwich

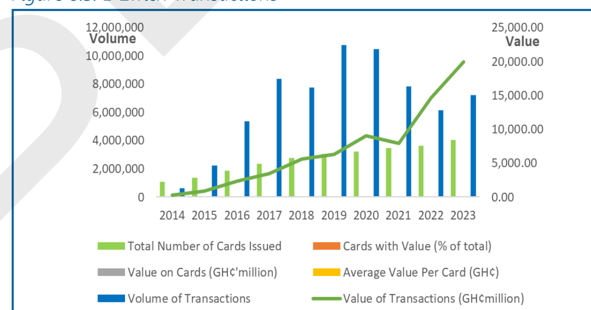
In 2023, the number of E-zwich cardholders increased by 11.63 per cent to 4,047,066 from 3,625,543 in 2022. The total volume of E-zwich transactions increased by 17.19 per cent to 7,218,198 in 2023, from 6,159,465 while the total value of transactions increased by 36.54 per cent to GH₵20,002 million in 2023. (See Table 8.3 and Figure 8.4).

Table 8.3: E-zwich Transactions

Indicators	2022	2023	2023 change	2023 Growth (%)
Total Number of Cards Issued	3,625,543	4,047,066	421,523	11.63
Cards with Value (% of total)	64.51	64.9	0.39	0.6
Value on Cards (GH₵' million)	189.20	313.33	124.13	65.61
Average Value Per Card (GH₵)	80.90	119.4	38.50	47.59
Volume of Transactions	6,159,465	7,218,198	1,058,733	17.19
Value of Transactions (GH₵' million)	14,648.54	20,001.57	5,353.03	36.54

Source: Bank of Ghana (2023)

Figure 8.5: E-zwich Transactions



Source: Bank of Ghana (2023)

Gh-link

In 2023, the Gh-Link platform recorded a total volume of transactions of 1,032,484 compared to 1,018,456 in 2022. The value of transactions in 2023 was GH₵688.12 million, compared to GH₵551.30 million in 2022, representing a 24.82 per cent growth. ATM transactions continued to dominate the gh-linkTM platform and constituted 98.30 per cent of the total value of transactions. (See Table 8.4 and Figure 8.5).

Table 8.6: gh-linkTM Transactions

Indicators	2022	2023	2023 change	2023 Growth (%)
Volume	1,018,456	1,032,484	14,028	1.38
Value (GH₵' million)	551.30	688.12	136.82	24.82
Average value per transaction GH₵	541.31	666.47	125.16	23.12

Source: Bank of Ghana (2023)

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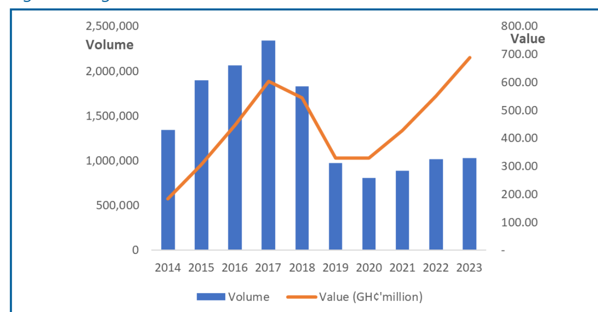
Figure 8.6: gh-linkTM Transactions



Source: Bank of Ghana (2023)

GhIPSS Instant Pay (GIP)

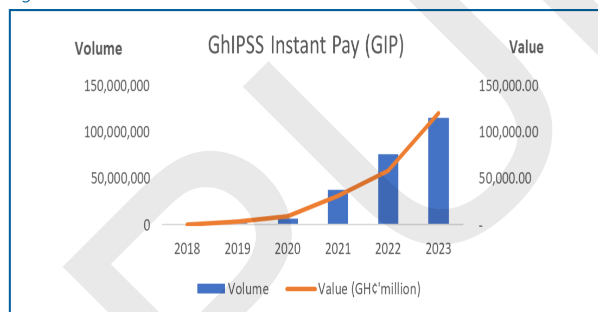
Activities on the GhIPSS platform improved in 2023. The GhIPSS Instant Pay (GIP) platform recorded a total volume of 115,368,700 transactions in 2023 with a total value of GH₵120,099 million compared with a total volume and value of 76,483,008 and GH₵58,698 million, respectively in 2022. This showed an increase of 50.84 per cent in transaction volumes and 104.61 per cent in transaction values. (See Table 8.5 and Figure 8.6).

Table 8.7: GIP Transactions

Indicators	2022	2023	2023 change	2023 Growth (%)
Volume	76,483,008	115,368,700	38,885,692	50.84
Value (GH₵' million)	58,698.07	120,099.456	1,401.38	104.61
Average value per transaction GH₵	767.47	1,041.01	273.54	35.64

Source: Bank of Ghana (2023)

Figure 8.6: GIP Transactions



Source: Bank of Ghana (2023)

Internet and Mobile Banking

Internet banking customers increased by 16.60 per cent to 1,317,003 in 2023, from 1,129,387 in 2022. Similarly, the number of registered mobile banking customers increased by 51.54 per cent to 7,287,579 from 4,809,103 in 2022. Similarly, the total value of internet banking transactions increased by 22.90 per cent to GH₵98,870 million in 2023, compared with GH₵80,440 million in 2022. Total volume of internet banking transactions also increased by 30.65 per cent to 13,501,492 in 2023 from 10,334,353 in 2022. The value of mobile banking transactions was GH₵80,400 million in 2023, compared to GH₵38,475 million in 2022. The volume of mobile banking transactions was 66,941,069 in 2023 compared to 65,322,898 in 2022. (See Table 8.6).

Table 8.6: Internet and Mobile Banking

		2023	2023	Growth (%)
Internet Banking	Number of registered Customers	1,129,387	1,317,003	16.60
	Volume of transactions	10,334,353	13,501,492	30.65
	Value of transactions (GH₵ million)	80,438.22	98,869.40	22.90
	Average volume of transactions per day	28,313	36,990	30.65
Mobile Banking	Number of registered Customers	4,809,103	7,287,579	51.54
	Volume of transactions	65,322,898	66,941,069	2.50
	Value of transactions (GH₵ million)	38,474.50	80,399.76	109.00
	Average volume of transactions per day	178,966	183,400	2.50

Source: Bank of Ghana (2023)

8.2.1 Dealing with Emerging Risks in the Payments System Sector

BOG stepped up its oversight and supervisory activities of the payments ecosystem to address key risks emerging in the sector. Notwithstanding the positive developments highlighted earlier, the ecosystem has been exposed to significant risks emanating from fraud, cybersecurity, governance, and information security. To engender confidence and foster digital payments, the BOG maintained strong internal and external collaboration with key stakeholders and security agencies towards curbing fraud in the payment space.

To enhance the safety and security of online / digital payments, the BOG was proactive in implementing measures to combat cyber fraud and scams. The increased adoption of digital payments options has made the space attractive to cyber criminals. The BOG stepped up public sensitization, issued directives and promptly investigated fraud cases to deal with increasing fraud. The BOG, with assistance from the Alliance for Financial Inclusion (AFI) has developed policies on financial education and financial literacy to serve as a guide to promoting consumer education and knowledge sharing on emerging risks in the payments space. Also, the BOG in Section 56 (8) of the Cyber and Information Security Directive (CISD) directs its regulated financial institutions to activate two-factor authentication in web transactions. The BOG,

in addition, undertook comprehensive investigations into fraud complaints by customers and ensured the implementation of corrective measures to safeguard the payments system space.

Cyber Risk Governance

The BOG introduced measures to strengthen cyber risk governance in the payments system. Cyber security has been a core scope of oversight and examination of the activities of payments service providers with the objective of identifying gaps and proposing remedial measures. To support the implementation of the Cyber and Information Security Directive (CISD) issued in 2018, the BOG established the Financial Industry Command Security Operations Centre (FICSOC) to prevent, detect, share information, and respond to cyber threats aimed at the banking sector and financial services industry. The BOG also held sensitisation sessions and stakeholder engagements with payment service providers and other key stakeholders on the requirements of the CISD. The CISD provides the minimum compliance standards for enhancing cyber security of the ecosystem.

The BOG enforced the corporate governance requirements of the Payment Systems and Services Act, 2019 (Act 987) to ensure a strong governance regime for payment service providers. The Bank conducted off-site and on-site examinations and identified gaps in the governance structure of payment service providers as a threat to the security and resilience of payment service delivery. The institution of strong governance systems to oversee payment system operations of payment service providers has been identified as an effective mechanism to manage the risks in the payments space. The BOG strictly ensured compliance with data protection laws and the safeguarding of information security through the requirement of Data Protection Commission and ISO27001 certification by all payment service providers. To mitigate the risk of exploitation of customers and to ensure that payment products and services meet the minimum compliance standards, the Bank exercises its powers under section 18(5) of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930) and section 10 of the Payment Systems and Services Act, 2019 (Act 987) to review and authorise payment products and services offered by payment service providers.

The BOG assessed the Ghana Interbank Settlement's (GIS) performance using the Principles for Financial Market Infrastructures (PFMI). The BOG carried out an assessment of the GIS, Ghana's Real Time Gross Settlement (RTGS) system, against the PFMI published by the Bank for International Settlements (BIS). This was to safeguard the operational resilience and integrity of the GIS. The BOG also strengthened the settlement process by consolidating liquidity requirements into a "Failure to Settle Rule" to guide participants against default through their participation in the RTGS.

8.2.2 Addressing Emerging Risks Relating To Fintechs

In 2023, the emerging risks in the fintech sub-sector included illegal lending applications, unauthorized access to payment gateways, and inward remittance violations.

The BOG initiated surveillance and investigations to curb the operations of illegal lending applications (loan apps). The efforts resulted in the identification of over 200 such apps offering unapproved and unlicensed lending products to Ghanaian consumers. Subsequent investigations uncovered several practices as follows:

a. The illegal loan apps provided credit at exorbitant interest rates;
b. Mandatory loan application processes were designed to harvest extensive personal data, including contacts, SMS messages, pictures, and device information, without the applicant's explicit consent; and
c. Defaulting borrowers faced severe harassment and blackmail such as broadcasting of SMS messages, disclosing their credit information to their contacts.

Consequently, the BOG undertook prompt corrective actions to address the menace that exposed the FinTech sub-sector to financial and privacy risk. The BOG issued public notices in August 2022 and July 2023 to caution financial institutions and the public against engaging with these illegal loan apps. The notice encouraged the public to patronise only BOG-approved digital credit products. The BOG also implemented several measures to combat the proliferation of these unauthorized lending platforms. These included:

a. Collaboration with Google's Regulatory and Policy unit to have the offending apps removed from the Google Play Store. As a result, over 200 loan apps were successfully removed and barred from the platform. Google also revised its Personal Loan Policy to restrict lending apps from accessing sensitive device information, including SMS messages and contacts.
b. Collaborations with the Economic and Organised Crime Office (EOCO), the Cyber Security Authority (CSA) Ghana, and the Ghana Police Service, culminated in a coordinated swoop on illegal operators leading to the arrest of 420 individuals, including three foreign nationals.

The proactive stance of the BOG regarding ecosystem surveillance and investigations has ensured that the activities of such illegal operators did not degenerate

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into excessive consumer abuse. Going forward, the BOG remains actively engaged with Google and other relevant authorities to clamp down on such unlicensed activities to ensure the safety of consumers and uphold the integrity of financial service delivery in Ghana.

The BOG blocked unauthorised access to the payments gateway. BOG's oversight of licensed institutions led to the detection of unlicensed payment service providers that were offering payment services through the payment gateways of some licensed institutions. Such institutions, by operating outside supervision pose significant operational, cybersecurity, and data privacy risks which can undermine the safety and soundness of the payment ecosystem. Any such instances that are detected are therefore investigated and licensed institutions are promptly directed to cut them off from accessing the payment gateways. In 2023, seventeen (17) of such unlicensed institutions were shut off from the country's payment gateways.

The BOG, through enhanced supervision, identified some challenges with inward remittance services that could compromise financial stability. In response to challenges faced by Payment Service Providers (PSPs) in executing inward remittances effectively, the BOG initiated comprehensive reforms in 2023 to streamline guidelines and address existing discrepancies. The key challenges included:

a. **PSPs scouting for the best price among banks:** A lack of uniformity in exchange rates among banks led to PSPs scouting for the highest rate, complicating their remittance operations. This activity was a violation of the existing guideline (which required that the forex be exchanged for Ghana Cedi with only the approved settlement bank per PSP) for which violating entities were sanctioned.
b. **Onshore trading by Money Transfer Organisations (MTOs):** Some MTOs engaged in onshore trading by establishing entities within Ghana and conducting transactions directly in cedis rather than availing the forex to the partner banks as required. This practice posed risks to the stability of the foreign exchange market.
c. **Settlement bank limitations:** PSPs faced constraints related to settlement banks, as each PSP was granted only one settlement bank for each inward remittance product under the existing framework. This limitation sometimes resulted in difficulties in accommodating the volume of funds received by PSPs as the authorised settlement banks were not always willing to buy the forex immediately. This impacted the operational efficiency of the PSPs negatively.
d. **Unapproved inward remittance partnerships:** The BOG also identified some PSPs to be operating inward remittance business in partnership with some MTOs that had not been approved to operate in Ghana. Some of these partnerships involved MTOs that were operating an aggregation (or hub) model involving other sub-partnerships from diverse jurisdictions thereby increasing the country's exposure to money laundering and terrorism financing risks.

In response to these challenges, the BOG revised the Guidelines for Inward Remittance Services by Payment Service Providers (2021). The process included engagements with all relevant parties, including PSPs, Dedicated Electronic Money Issuers (DEMIs), banks, and other key stakeholders to foster alignment and understanding among market participants. Highlights of the revision and enforcement measures included the following:

a. **Establishment of standardized exchange rates:** The BOG set forth clear guidelines stipulating a fair and uniform exchange rate to be utilized by all PSPs and MTOs for their remittance transactions. This standardized rate mitigates incentives for PSPs to engage in scouting for the highest exchange rate among banks, promoting consistency and fairness in transaction costs.
b. **Channelling forex to nostro accounts:** MTOs are now mandated to channel all foreign exchange (forex) for remittance transactions to the Nostro accounts of PSP's designated settlement banks. This measure ensures that forex proceeds are managed by authorized financial institutions and forestalls the situation where MTOs engage in unauthorised forex trading in Ghana.
c. **Expansion of settlement bank options:** To enhance operational flexibility and mitigate settlement constraints, the BOG expanded the number of settlement banks available to each PSP. PSPs are now permitted to match with up to three settlement banks to help improve their transaction efficiency.
d. **Publication of unapproved MTOs:** The BOG published the names of eight (8) unapproved MTOs operating within the remittance and forex market space without approval from the Bank of Ghana. Subsequently, all partner PSPs of these MTOs halted their operations with them.

By the revision and enforcement of the Inward Remittance Guidelines through inclusive dialogue, the BOG demonstrated commitment to transparency, collaboration, and stakeholder engagement in the regulatory process without compromising on policy soundness.

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The BOG achieved a remarkable milestone by conceptualizing and deploying an advanced Supervisory Intelligence Platform in-house. This innovative system, initially created in 2022, underwent significant enhancement in 2023 due to ongoing feedback and advancement in technology. Leveraging geospatial mobile money data, this platform revolutionizes the BOG's approach to gaining visibility and insights, as well as optimizing performance across the FinTech landscape. At its core, this cutting-edge platform serves as a pivotal tool for off-site supervision, enabling the Bank to categorize and address critical regulatory issues such as:

a. **Compliance with wallet KYC limitations:** By leveraging geospatial data, BOG closely monitors and ensures adherence to Know Your Customer (KYC) limitations associated with mobile money wallets, mitigating the risk of fraudulent activities, and enhancing customer protection.
b. **Geospatial behavioural patterns:** Through sophisticated analytics, BOG analyse geospatial behavioural patterns of users to detect anomalies or suspicious activities, allowing the Bank to take pre-emptive measures to safeguard the integrity of the financial system.
c. **Age and gender-related behaviour:** The platform enables BOG to identify and assess age and gender-related behaviours, providing valuable insights for targeted interventions and tailored regulatory measures to address specific demographic challenges or vulnerabilities.
d. **Data-Driven Approach for Policy Formulation:** Leveraging the vast array of data at BOG's disposal, enables it to adopt a data-driven approach to formulate and refine policies, ensuring they are aligned with market dynamics, customer needs, and regulatory objectives.
e. **Review of Policies Post-Implementation:** The platform facilitates continuous monitoring and evaluation of policy implementations, enabling BOG to assess policy effectiveness, identification of areas for improvement, subsequent to which necessary adjustments are promptly made. These policy reviews are related to merchant categorization, crowdfunding, e-Levy, and other aspects of the FinTech ecosystem.

The BOG's Supervisory Intelligence Platform empowers the Bank to proactively address risks through enhanced supervision, timely interventions, and targeted policy interventions. The impact of this ground-breaking achievement has been transformative, culminating in the BOG receiving the prestigious 'FinTech Policy of the Year' award at the 2022 Central Banking's Annual FinTech RegTech Global Awards. By harnessing the capabilities of the Supervisory Intelligence Platform, the Bank mitigates a multitude of risks inherent in the rapidly evolving FinTech landscape, including:

a. Fraudulent activities and money laundering through mobile money platforms;
b. Non-compliance with regulatory requirements, particularly in KYC procedures;
c. Emerging threats posed by cyberattacks and data breaches;
d. Financial exclusion or discrimination based on age or gender-related biases; and
e. Market distortions resulting from ineffective or outdated policies.

8.3 Deposit Insurance Around the World: Emerging Trends and Key Issues[11]

Overview

In the past decade, while the mandate of deposit insurers in some jurisdictions have expanded, considerable regional variance in deposit insurers' mandates persist. Data from the International Association of Deposit Insurers (IADI) offers some evidence that generally, deposit insurers' mandates relate to the state of economic development in their jurisdictions. In addition, while significant challenges remain, a broad-based improvement in reimbursement practices has been observed globally during the past decade. Also, in some jurisdictions, the role of deposit insurers in resolution decision making continues to expand over time, mainly driven by the increasing role of deposit insurers in bank resolution funding.

Deposit insurers' mandates

The past decade has witnessed a global trend of deposit insurers' mandates being expanded significantly. As shown in Figure 8.8 below, on a global scale, the share of paybox deposit insurers, whose task is mostly limited to premium levying and reimbursing depositors, has fallen from 25 per cent to 17 per cent. Conversely, the share of deposit insurers with a paybox plus mandate, where the deposit insurer has additional responsibilities in resolution beyond reimbursement such as contributing to financing, operationalizing, and/or decision-making in resolution, continues to grow significantly in prevalence. In the past decade, the share of paybox plus deposit insurers has grown from 37 per cent to 48 per cent. When combined with loss and risk minimizers, whose mandates explicitly recognize their involvement in resolution, paybox plus deposit insurers constitute 83 per cent of all deposit insurers in 2023 compared to 75 per cent in 2014. This broad expansion of deposit insurers' role in resolution is well-established in recent years.

[11] *IADI Publication: Deposit Insurance in 2024, Global trends and key issues*

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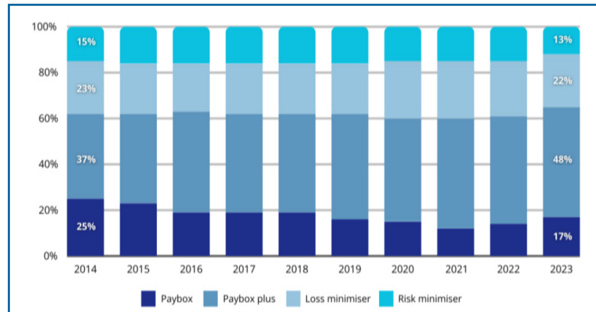
Figure 8.8 – Deposit Insurers' Mandates Over tTime



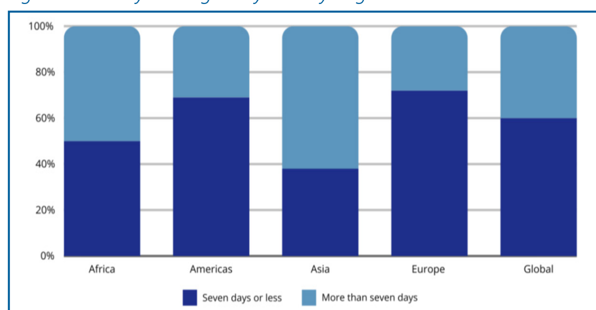
Source: Deposit Insurance in 2024 – Global Trends and Key Issues

Although the mandate of deposit insurers has expanded, there are considerable regional variations. Deposit insurers in advanced economies have a broader mandate implying that the higher the income category of economies, the more prevalent combined loss and risk minimizing deposit insurers are. Evidently, paybox deposit insurers remain particularly relevant on the African continent and – to a lesser extent – in Asia. Similarly, paybox plus continues to be the prevalent mandate in Europe with its share accounting for more than half (57%)[12] and risk minimizer deposit insurers accounting for only 4 per cent. However, in the Americas, the deposit insurers with a resolution function as loss or risk minimizers is well above average, and this share is even higher (75%) in the North America.

Reimbursement

Considerable improvements in reimbursement practices have been observed globally, although significant challenges remain. The IADI Core Principle 15 under the Effective Deposit Insurance Systems requires the deposit insurer to reimburse insured depositors within seven working days. Even though a number of deposit insurers have challenges meeting this requirement, a considerable improvement has been observed in the speed of reimbursement by deposit insurers globally. The share of deposit insurers commencing reimbursement within seven days has consistently grown over the last decade, from just over 30 per cent in 2013 to approximately 60 per cent in 2023. Importantly, as Figure 8.7 clearly depicts, findings differ by region, ranging from 70 per cent of European deposit insurers to 40 per cent of Asian deposit insurers commencing payout within seven days.

Figure 8.9 – Days to Begin Pay-Out by Region in 2023.



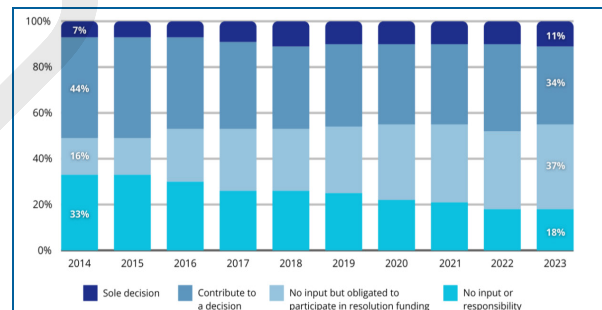
Source: Deposit Insurance in 2024 – Global Trends and Key Issues

[12]IADI Annual Survey (2023)

Resolution

The role of deposit insurers in resolution decision-making continues to expand over time mainly driven by the increasing role of deposit insurers in funding bank resolution. Notwithstanding the general broadening of deposit insurers' mandates, only one third of deposit insurers globally identify themselves as bank resolution authority, up from one quarter recorded a decade earlier. The share of deposit insurers with an involvement in resolution has grown in the past decade from 67 per cent to 82 per cent as shown in Figure 8.10. This increase was largely driven by the growing relevance of deposit insurers that have the obligation to participate in funding resolution. In Europe, the share of paybox plus deposit insurers increased, following the 2014 Bank Recovery and Resolution Directive (BRRD) legislation which required deposit insurers to contribute towards the funding of bank failure management. In the Americas, deposit insurers are resolution decision-makers to a degree that is well above-average (21% vs 11% globally, while this share is significantly higher in North America). The greatest proportion of deposit insurers with no involvement in resolution decision-making or funding are in Asia (39%) and Africa (33%). However, the proportion of deposit insurers with sole decision-making power in enacting resolution activities remains very low (see Figure 8.8), which speaks to the important role of financial safety-net coordination.

Figure 8.10: Role of deposit insurers in resolution decision-making



Source: IADI Annual Survey (2023)

8.4 Emerging Money Laundering, Terrorism Financing and Proliferation Financing Risks

This section highlights the findings of some of the recent global studies conducted by the Financial Action Task Force (FATF) on global financial crimes. FATF is the international body that provides policies and standards for combating money laundering, terrorist financing and proliferation of weapons of mass destruction.

Illicit financial flows from cyber-enabled fraud

Cyber-Enabled Fraud (CEF) is a growing transnational organized crime. CEF can be defined as crime, e.g. fraud, committed with the enablement of computers,

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the internet and other related technologies. According to the FATF, CEF criminal syndicates are often well structured into distinct sub-groups with specialized areas of criminal expertise, including money laundering. These sub-groups may also be loosely organized and de-centralized across different jurisdictions, which further complicate efforts to investigate CEF activity. CEF syndicates are also found to be linked to other types of criminality, notably human trafficking and forced labour in CEF call centres as well as proliferation financing linked to illicit cyber activities.

Money Laundering (ML) groups and professional enablers are involved in the CEF-money laundering process. The ML network of accounts typically involves money mules but can also include shell companies or legitimate businesses. ML networks also feature different types of financial institutions (FIs), including banks, payment and remittance providers, and virtual asset service providers (VASPs). To further conceal the financial trail of their ill-gotten gains, criminals use a combination of various ML techniques, such as the use of cash, trade-based money laundering (TBML), and unlicensed services.

Technology has allowed CEF criminals to develop and increase the scale, scope, and speed of their illicit activities. Various technological tools and techniques are used to deceive victims or prey on their psychological state and emotions to extract as much funds as possible. CEF syndicates are exploiting technological developments to make it easier and faster to launder the proceeds of their crimes. Virtual services, such as remote online account opening, also allow criminals to easily set up foreign accounts and launder proceeds abroad, with financial transactions being executed at near-instantaneous speeds. Criminals are taking advantage of social media and messaging platforms to recruit money mules across borders at scale. Criminals are also quick to exploit vulnerabilities that emerge through new digital financial institutions and products, as well as non-traditional sectors such as e-commerce, social media and streaming platforms.

FATF proposed various measures to address the emerging threat of CEF. FATF recommends that jurisdictions should respond more effectively to CEF by doing the following:

a. employing initiatives to increase victim reporting and enhance suspicious transaction reporting;
b. effectively analysing voluminous information inflows to tackle CEF;
c. given the cross-cutting nature of CEF, strong domestic co-ordination mechanisms are required to holistically combat and prevent CEF and related ML; and
d. financial institutions to have risk indicators, as well as useful anti-fraud requirements and controls, that may be useful for public and private sector entities to detect and prevent CEF and related money laundering.

An effectively coordinated multilateral approach could help address CEF. The location where CEF predicate offences occur tends to be different from where the ML process occurs. Proceeds can be laundered quickly through a network of accounts, which often span across multiple jurisdictions and financial institutions. Jurisdictions should adopt a multilateral coordinated approach to effectively and expeditiously intercept CEF proceeds that are laundered across borders. To do so, jurisdictions should leverage and support existing (and any future) multi-lateral mechanisms (such as INTERPOL and Egmont Group) for rapid international co-operation and information exchange to more effectively combat CEF.

Crowdfunding for Terrorism Financing

The FATF produced the first comprehensive international study on Terrorism Financing linked to crowdfunding. Crowdfunding is an innovative fundraising solution, used by people from all over the world to fund legitimate ideas, projects or business ventures. However, crowdfunding can be exploited by criminals. FATF research has shown that terrorists have exploited crowdfunding to raise money for terrorist financing (TF) purposes. The possibility of quickly and easily reaching a global audience can make crowdfunding an attractive method of fundraising for terrorism financing.

FATF notes four main ways in which crowdfunding platforms can be abused for TF purposes. In practice, terrorists and violent extremists rely on multiple methods to raise funds and may combine various techniques including:

a. establishing a fundraising campaign on a dedicated crowdfunding platform;
b. sharing the campaign on social media;
c. requesting payment in virtual Assets (VA); and
d. abusing humanitarian, charitable or non-profit causes.

In addition, FATF identified three ways in which this activity manifests:

a. individuals launch a financial appeal for a humanitarian or social cause, but funds raised support a terrorism-related offence or actors;
b. a charity launches an appeal for funds but does not undertake the advertised humanitarian activity and diverts all or part of the funds to TF; and
c. terrorist groups could extort and skim legitimate Non-Profit Organisations (NPOs) that use

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crowdfunding to raise, especially high-risk environments controlled by terrorist groups.

FATF made the following recommendations to jurisdictions to limit TF risks related to crowdfunding:

a. Countries should improve their understanding of the nature and scope of the national crowdfunding industry, identify its associated risks and put in place mitigating measures; and
b. Continuous outreach awareness creation for all stakeholders including national authorities, private sector, civil society and academia.

Countering Ransomware Financing

The global scale of financial flows related to ransomware attacks has grown dramatically in recent years. FATF report indicated that ransomware payments increased cumulatively by fourfold in two years (2020 and 2021), compared to 2019. New techniques have increased the profitability of attacks and the likelihood of success. These include the targeting of large, high-value entities as well as ransomware as a service, where ransomware criminals sell user-friendly software kits to affiliates. The consequences from ransomware attacks can be dire and pose national security threats, including damaging and disrupting critical infrastructure and services.

The FATF through its typologies aims to improve global understanding of the financial flows linked to ransomware and highlight good practices to address this threat. A ransomware attack is a form of extortion and the FATF Standards require countries to criminalise it as a predicate offence for money laundering. Ransomware criminals exploit the international nature of virtual assets to facilitate large-scale, nearly instantaneous cross-border transactions, sometimes without the involvement of traditional financial institutions that have anti-money laundering and counter terrorist financing (AML/CFT) programmes. Criminals further complicate their transactions by using anonymity enhancing technologies, techniques, and tokens in the laundering process, such as anonymity enhanced cryptocurrencies and mixers. The near-exclusive use of virtual assets in ransomware-related laundering further reinforces the importance of accelerating the implementation of FATF Recommendation 15, which requires jurisdictions to put in place measures to mitigate risks linked to virtual assets and to regulate the virtual asset service provider (VASP) sector. These efforts are critical to prevent criminals from easily accessing VASPs located in jurisdictions with weak or non-existent AML/CFT controls to launder profit from their crimes.

Through a multi-disciplinary approach, jurisdictions must increase and enhance the tools available for detection and reporting of ransomware attacks. Ransomware attacks are generally underreported due to challenges in detection by the private sector, negative impacts to the victim's business or a fear of retaliation from criminals if a victim reports an attack. This partly explains the difficulties in detecting and investigating money laundering related to ransomware. Authorities need to move quickly to collect key information and should have the necessary tools and skills to effectively trace and recover virtual assets. Ransomware cuts across a wide range of areas and investigations may involve actors outside the traditional AML/CFT authorities, including cybersecurity and data protection agencies. As such, a multi-disciplinary approach is required to effectively tackle ransomware and associated money laundering. Again, the transnational nature of virtual assets requires that jurisdictions build and leverage existing international co-operation mechanisms to successfully tackle ransomware-related laundering.

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