

BANK OF GHANA



**TRANSCRIPT OF THE MPC PRESS BRIEFING HELD ON MAY 21, 2018 IN THE MPC
CONFERENCE ROOM, BANK OF GHANA, AFTER THE 82ND MPC MEETINGS**

**TRANSCRIPT OF THE MPC PRESS CONFERENCE
HELD ON MONDAY, MAY 21, 2018**

Following the Monetary Policy Committee (MPC) press conference by the Governor, who is also the Chairman of the MPC, on Monday May 21, 2018, the Press sought clarifications on a number of issues. Below is an edited transcript of questions by the Press and responses by the Governor.

Questioner: *Congratulations on meeting your inflation target. Sir, now we have a situation where the Eurobond inflows have greatly improved the country's gross reserves. We also have a situation where we have about 6 percent shortfall in expected revenues for the first quarter of the year or so. What are we going to use the incoming IMF money for? Because I understand the IMF has agreed we can use part of the money for budgetary support – different from originally when it was strictly for Balance of Payments (BOP) support. So I will like to know what's going to be the mix between how much will go into supporting the budget and how much will go into supporting the balance payments since our reserves have gone up?*

Governor: Yes, that is the case that the IMF credit facility this time is being used to finance the budget. In a sense, I think, this gives an indication that we don't really have a major financing problem. The key issue on the fiscal is raising revenue, which is above the line, so let's not mix up those two concepts. As you rightly said, we have a stronger level of international reserves – US\$8.1 billion or so – at the end of 17th May, due to the recent Eurobond issuance. In a sense, this provides us with some buffers to absorb shocks better, so that's a good thing. Another good thing is to have the IMF BOP support being used up by the budget. So, while the central bank benefits from the dollar accumulation from that flow, we also get the fiscal financing part which addresses the growth objectives of the government. This implies that, we are not just doing BOP support but we are also addressing the growth agenda.

Questioner: *I looked at the data which Bank of Ghana released over the weekend and I realized that you're talking about the increase you realized in prices on Cocoa. I think because we are using or we sell on the futures market, the realized price Ghana has been enjoying over the past one year has declined quite significantly, while spot prices have been going up, so is there anything we can do about it? I know we have to do futures because of the syndicated loan but is there anything we can do so that we would not be penalized and be earning less, while everyone else is earning more?*

Governor: You rightly mentioned the fact that the realized prices of Cocoa tend to be lower than the current prices that we are seeing on the international markets, because of the forward sales that the COCOBOD has been engaging in. I am aware that they are closely monitoring their strategies and we expect that the next set of sales would reflect current price developments on the international markets.

Questioner: *How has the Ghana Reference Rate (GRR) affected banks' interest rates since it was introduced in April?*

Governor: You know the GRR is a combination of three interest rates – the Monetary Policy rate (MPR), the 91-day Treasury bill rate and the Interbank market rates so changes in any of these three should lead to a change in the GRR. Consequently, we expect that the MPR reduction by 100 basis points would result in a reduction of the GRR. Remember that, commercial banks are supposed to price using the GRR as the reference rate, so whatever rate they decide to charge on a loan would reflect their assessment of the risks attached to that loan. I must however say that it is too early for us to start drawing any conclusions on whether this new Reference Rate is beginning to address the weak transmission problem which we had under the old regime. But I think by the next quarter or so, we would start getting a clearer sense of whether the transmission is taking place.

Questioner: *I have two concerns before I proceed. The first concern is about the seating arrangements. If you look around you'll realize most of us journalists are standing. Something has to be done about it. The second issue is that the last time I checked on the transcript I noticed some of the responses were edited out. I don't have a problem if it has to do with editing for clarity, but when you have responses being taken out it doesn't show true reflection of what happened on the day.*

Governor: Maybe we have to look at relocating our press conferences to a larger room so that you can all sit comfortably and get the cameras from better angles. But, the issue you raised about the transcript has to be looked at because that's not the intention. The intention is to just do editorial correction to things that transpired during the press conference. Somebody was even raising the question whether we should be publishing minutes of the MPC meetings which will be another step in the transparency process. I think it would only be value adding by publishing those minutes because then you can get a good sense of the various considerations that come from different perspectives in deciding on where to place the policy rate.

Questioner: *I know about banks which were established barely two years ago having some challenges. We saw what happened to Capital and we have seen what has happened to Sovereign Bank. If the Bank of Ghana has strong supervision, why is it that barely two years after banks were established, they have to go under some challenges?*

Governor: We've already said that we are dealing with legacy issues in the banking sector. The question is whether the decision at the point of licensing was appropriate. I cannot answer that question because it's part of the legacy issues that we are addressing. You would recollect that we've had quite a number of banks licensed at a very rapid pace. Nearly six, or seven or eight banks were licensed in two years, a situation which is not by any means something that one can

easily vouch for. But, it's a good observation that so soon after licensing, some of them can run into liquidity problems.

Questioner: *We know there's a deadline for recapitalization, and true to the word, we want to find out if we are sticking to the deadline of meeting the minimum capital requirement. If we are, what happens to the banks that are unable to meet the deadline and have requested for extended time? I say this because when people ask me if they can drop money in a particular bank or not, I get confused as to whether to say keep it with the banks that have already declared they can meet the minimum capital requirements or you can still deal with the indigenous banks. I mean as financial journalists, a lot of people get in touch for advice here and there. The clarity you put to this matter can make us advise them better.*

Governor: I think we have been very clear in communicating that we are sticking to the deadline and we have given the options for those who cannot meet the deadline. We expect that by the end of the next MPC meeting, we should be able to tell you about the banks that are taking advantage of the various options that have been put on the table. Hopefully, by that time, the Committee that's looking for ways in which government can support the indigenous banks will take all of those things into consideration by the time their report is out. I am aware that one of the options which have been presented to that Committee is about merging, which is one of the options still on the table.

Questioner: *Looking at the domestic and external debt, when you add GHC68.2 billion to GHC76.8 billion, you are likely to have about GHC145 billion, which is about 60 percent of GDP. Our public debt keeps increasing and I'm wondering if that is a good thing for the country? What are we doing about it?*

Governor: At the end of the day, when you borrow and use the resources to build capacity and invest wisely in productive infrastructure which would eventually lead to a stronger economy, then obviously you're doing the right thing. So borrowing in itself is not necessarily the problem, but it's the use of the proceeds which matters and we think that once these proceeds are put into productive ventures the Ghanaian economy should grow and be stronger on the basis of those additional investments. Obviously, we are also looking at the issues on debt sustainability and with that type of analysis; you want to look at your debt service ratios relative to certain thresholds, such as debt to GDP thresholds. All of those assessments that have been done suggest that the Ghana debt to GDP ratios are moderately sustainable, if I should put it that way.

Questioner: *The Bank of Ghana has assured the public that the banking sector remains solvent but we keep seeing the BOG appointing advisors and administrators to manage certain banks which I wouldn't say are in distress because the BOG has not officially told us that. I want to find out from Bank of Ghana what is really happening in the sector?*

Governor: With regards to the question on the banking sector being solvent and yet Bank of Ghana appointing advisors, obviously, when we give you that description, we are looking at the aggregate banking sector, which reflects the broad capital adequacy ratio as a group. But, when you look at the data closely, you'll find one or two weak spots. It doesn't mean that the entire banking industry is weak. This is the difference between looking at the aggregate banking data, which doesn't mean there are not a few spots where conditions might not be as robust.

Questioner: *I want a bit of clarity. When you were reading the press statement you mentioned that total advances increased by about 27 percent. I am not sure if I got it right but the data we have showed that it increased by 4.4 percent compared to 16.7 percent year on year.*

Governor: You're doing too much analysis of the material. Your own calculations of total advances suggest that it's 4.4 percent. This is what you're saying. I am not sure if you have the data that we have. We have the data on the banks and we are telling you the total new advances increased by 27 percent over the first four months of the year. So look at your data very carefully.

Questioner: *On the issue of the legacy loans having negative impact on NPLs, I overheard you mention that if you look at the capital adequacy ratio, the rebalancing of the banking sector, the two banks going and one currently under administration all had a negative impact on that, so the figures we are seeing now is a reflection of that. But if we look at the NPL side, we see a different trend where even though that should have had a positive impact, in the sense of having it to reduce, we see it go up. So is it the case that the legacy loans at the time were not factored in at the time we were issuing those NPLs?*

Governor: On legacy loans and the NPLs, I don't understand the parallels that you're drawing but I think the message is that, yes, we are seeing NPLs edging up partly because of the migration of loans that were previously classified as performing now moving to become substandard and loss. I think this is the story about the rise in the NPLs. The issue of legacy has to do with the sectors, so some of them might be energy sector loans that are migrating from current to the non-performing category; some of it are non-energy sector loans that are also migrating, so that's where the relationship between the history and what is going on comes in.

Questioner: *What will be the effect on our debt statistics with regards to the two billion Eurobond that we contracted?*

Governor: It would show up in higher levels of total debt to GDP, but I have already addressed the issue about debt – that it's not so much the contracting of the debt itself but it's the use of the proceeds and if the proceeds are used effectively, we should be able to maintain debt sustainability. I think this is the discussion that we should have in mind.

Questioner: *What specific debts will the US\$1.25 billion be used to refinance?*

Governor: In terms of the refinancing plan, from what we know, quite a bit of it is for liability management. Out of the two billion that has been issued, nearly US\$830 million would be used for liability management. In other words, we are using it to retire some of the more expensive outstanding sovereign bonds out there.

Questioner: *Inflation has dropped to 9.6 percent. I just want to find out how sustainable that is going to be with regards to the frustration with fuel and stuff like that?*

Governor: We have a medium-term central target path of 8 percent, so we are still looking at driving the inflation rate to at least 8 percent which is the central point in our forecast. This means we still have some work to do that's why we still have to keep up on the tightening – relatively tight monetary policy stance, keep up with the fiscal consolidation, and hope that the favourable external environment which impacts through exchange rate will continue to help drive the inflation rate further down. So, we are hopeful and I'm very confident that if we're able to deliver a 4.5 percent fiscal deficit target for this year, we should be able to see inflation head towards the middle target of 8 percent.

Questioner: *Can you share with us the preliminary report from KPMG with regards to uniBank?*

Governor: KPMG unfortunately has not yet submitted any report. We have had some preliminary discussions with them, we expect that the report would come in hopefully at the end of this month and depending on the information that they give us, we would let the public know.

Questioner: *There are suggestions that a new agency be carved out of Bank of Ghana to be solely in charge of supervision because it is believed that the central bank is overwhelmed by volume of work in the sector. Are you thinking along this line?*

Governor: I think it's an old discussion which we've had in this country way back in 2000 and 2008. At that time, we concluded that we did not think it was necessary in the Ghanaian case. I should remind you that prior to the financial crisis in the UK, there was that kind of separation where Bank of England focused on monetary policy and they had a different supervisory agency. But, the lessons from the financial crisis made it prudent for them to bring the supervisory role back to the Bank of England because they tend to have a broader view of the linkages between the macro economy and the financial sector. So, this is the gain one gets when the same institution is performing the same functions. And I think that we benefit from that arrangement. I was speaking earlier on about the importance of increasing the pace of arrears clearance because of the spillover effects into the financial sector. These are the type of linkages that the central bank is more effectively able to assess and analyse than when you have two institutions carrying out these functions. So it's an issue which would keep coming up. It came up ten years ago, it's coming up again and I think when we reach the point when we think that would be the way to go I'm sure the appropriate decisions would be taken, but for now, I

think that the current arrangement gives us the advantage of being able to reconcile the macro developments with happenings in the financial sector and then take more effective policy decisions on the basis of that.

Questioner: *I look at the Ghana Reference Rate and it's been trending downwards, and I look at that in relation to the policy rate. Do you foresee any situation where the policy rate would lose its relevance because of how the Reference rate is faring right now? Do we have to merge the two or do away with one and allow one to work?*

Governor: This is not new. We've always had base rates and always had the policy rate. The base rate never detracted from the policy rate so I don't see why that should happen in this case. Remember the monetary policy rate is a signaling instrument. It signals the direction of the policy. The base rates are used as a base on which banks price their loans so they are performing two different functions and I don't see why there should be any conflict between the two. It's not a new rate. We've always had the base rate previously calculated on the basis of cost structures of banks but currently they're constructed on the basis of variables that are observable by everybody so it's transparent and easy to calculate.

Questioner: *How are external forces going to impact your decision on what will happen to these commercial banks after December 31? Some of the local banks went to see the President and there's a Committee that has been set up. I also go through IMF's staff reporting and a certain paragraph seeks to suggest that they will prefer a longer time for these banks to recapitalise. There were reports that even some of the banks have still not met the 120 million as we speak. How will all this influence your decision in relation to the deadline?*

Governor: I've always responded to your issues on the Fund – that at the end of the day the programme is a Ghanaian programme. We're deciding that we want to achieve low inflation. We're deciding that we want to achieve this level of growth. We're deciding that we want to have a cleaner financial sector so the Fund comes to the table just as a partner to support us deliver our own objective in that sense. So any decision that we take are decisions based on where we want to go as a country. And as you can see, the discussions are ongoing, as I said. We expect the Committee to come with their report on things the government can do to support indigenous banks. By the next MPC meeting, we would get a clearer view of which banks would be able to meet the target that we have set, and those banks that cannot. We already know what the options are, so let's wait for the next MPC meeting.

Questioner: *You mentioned the loan portfolio still remains a concern with some adjustments, and the NPL ratio has gone to 10.3. It was slower in 2016 and has now risen higher. Is this a reflection of constant reduction in the policy rate?*

Governor: About the issue of the NPL, you're asking whether this is as a result of the reduction in the policy rate which really should not happen. If anything at all the reduction in the policy rate, if it leads to lower lending rates by the commercial banks, should reduce the

non-performing loans. So, we cannot attribute that to reduction in the policy rate. As I said, the NPLs are going up because the loans are migrating. They are migrating from performing loans category to the non-performing loans category. And these are loans that have existed for a while in both the energy and the non-energy sectors.

Questioner: *You said that, although 9.6 percent inflation is within your target band, you still focus on at least attaining the central point set by Bank of Ghana, which is 8 percent. Do you have any timeline for that?*

Governor: We have a band target of 8 percent plus or minus 2 percent and we are saying that the central band in that target is eight. About the time frame, we think that by the end of 2018 or early 2019, we should be close to the central point of that band target.

Questioner: *The banking issue that you have been discussing is costing the taxpayer over GHC2 billion. Now, if supervision that is happening at Sovereign Bank and uniBank is anything to go by, then it gives credence to some analysts who predict that a few other banks are also very distressed and treading on the UT, Capital Bank trail. If that is the case, then this cost to the state is going to be more than just GHC2 billion. For you as an institution, are you not liable for causing such a huge financial loss to the state? You may call it legacy, because it didn't happen under your tenure but still it is financial loss to the state. What is your take on that?*

Governor: The cost of the cleaning up of the banking sector of GHC2 billion is only an initial estimate on the basis of the gap between assets and liabilities of the two banks that were taken on by GCB. I say initial because this is a receivership process which has not yet ended. At the end of that receivership we expect that the receiver would realize some of these other assets. We expect that the receiver would go after those people who owe those banks, and all of those should help reduce the final cost of the intervention and in particular relating to those two banks.

Questioner: *How about the internal players? We are yet to hear of anything relating to BOG's staff roles in all these legacy issues.*

Governor: I don't know why you're focusing on the internal, but there are also the shareholders, the directors of these banks that were not properly governed and did not respect the rules of banking and drove their banks into insolvency. Once the process is allowed to run its course, you would have all of these people in a sense come to account to all of us on why these things happened. You know EOCO has already invited some of the shareholders and directors to explain some of the activities that took place. Don't be surprised if even internal people who were involved – I'm talking about BOG staff – could also be invited. The accountability process is going on, it has not yet ended. So let's see how that whole process unfolds. It doesn't end with sending an administrator or resolving a bank. There are other

processes that would continue and at the end of that process, the true cost of the exercise would become clear and all the parties involved would be subjects of interrogation.

Questioner: *Congratulations for your performance so far at the helm of affairs of the MPC. Within two to three months we've seen debt to GDP ratio dropping from about 73 percent to 60 percent. Basically, I'm a journalist and not an economist so I'll like to hear clearly from the expert what actually went into that sharp drop in the debt to GDP ratio.*

Governor: On debt to GDP, I don't think we want to focus on statistics. We can look at the statistics and see whether the numbers you're throwing out are the same as the numbers that we have; whether it's a drop from 73 percent to 60 percent. Some of the reasons why you would see these changes are if there is slower growth in debt accumulation or debt contraction. During the period, you would see a drop in the debt to GDP ratio. It also depends on what happens to GDP. If GDP has grown over the period, you would see a drop in the debt to GDP ratio.

Questioner: *There's the expectation that with the rebasing of the economy coming on around next month, there'll be a lot more room for fiscal space which would mean that the debt to GDP ratio may be reducing a bit further. But looking at revenue performance, what do you think the future holds in terms of our debt to GDP, our revenue to GDP ratio?*

Governor: About the likely rebasing of the economy, that would help lead to a further drop in the debt-GDP ratio. I think the key point is intuition behind the statistics. Even if you had the rebase of your GDP, does that really translate into additional fiscal space as you put it? Because on the revenue side, your revenue to GDP ratio would be low, then you need to try to raise additional revenue to come to levels that are considered standard. So the statistics is one thing and the interpretation too is another. And I was saying, the key thing about all of this is the use of proceeds of the debt that is contracted, to the extent that proceeds are used productively then we should expect to have a positive impact on the economy as a whole. And that's the issue of debt vulnerability. The use of proceeds is what will determine whether you're vulnerable or not.

Questioner: *What is happening to the recent issues concerning Menzgold? Has any decision been taken?*

Governor: You remember we issued a notice concerning Menzgold. I think that the investigations are still on-going. What is becoming very clear to us is that they have a system that accepts deposits from the public. We are trying to have discussions with the Ministry in charge, that is, Lands and Mineral Resources, who originally gave them their licence on the way forward with addressing the Menzgold issue. But, we are convinced that they are taking deposits and we don't want to act alone, but want to take an action which would also be backed by another arm of the government.

END
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