BANK OF GHANA BREAKFAST MEETING FOR STAKEHOLDERS

KEYNOTE ADDRESS
BY

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THEME: BUILDING A RESILIENT BANKING SECTOR TO SUPPORT A VIBRANT GHANAIAN ECONOMY

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1. I would like to acknowledge the presence of all gathered here:

    - CEOs and senior executives of the banking community in Ghana;
    - The CEO of the Ghana Association of Bankers;
    - Representatives of Academia;
    - Members of the Press; and
    - Distinguished Guests, Ladies, and Gentlemen

2. Good morning, and welcome once again to this morning's breakfast meeting. This event is part of Bank of Ghana's efforts to engage with key stakeholders, with the aim of reaching common ground on the state of the banking sector in Ghana and the way forward.

3. This morning, we intend to present highlights of recent regulatory developments in the banking sector, and to have frank discussions with you on remaining questions on your mind.

4. Ghana's banking sector forms about 85% of the entire financial system, making economic activity largely dependent on bank financing more so than on capital market financing. A robust banking sector is therefore, critical to the stability of the entire financial system and economic growth ultimately.

5. As we stated in the last Monetary Policy Press Release in March 2018, our assessment of the banking sector is that, it is, broadly speaking, profitable, solvent, and liquid. The total asset base of banks increased to GH¢95.1 billion in February 2018 indicating an annual growth of 13.7 per cent. The asset growth was mainly funded by deposits which went up by 12.6 per cent on a year-on-year basis. The industry's average Capital Adequacy Ratio (CAR) improved to 19.2 per cent in February 2018, reflecting efforts by banks to recapitalize. The Non-Performing Loans (NPLs) ratio remained unchanged at 21.6 per cent since December 2017 as banks continued to clean up their balance sheets. Adjusting for loan loss provision, however, the NPL ratio stood at 10.9 per cent in February 2018.

6. While the outlook is positive, there are a few pockets of vulnerability in the sector which we continue to monitor on an active basis to ensure that the banking sector continues to be safe and sound and that depositors' funds remain safe.

7. The Bank of Ghana's statutory mandate includes the responsibility to promote the stability of the financial system, and to protect the interests of depositors. This is a responsibility the management of the Bank of Ghana takes very seriously. In light of this, the culture of regulatory forbearance that once prevailed will not be countenanced.

8. Recent regulatory developments have sought to address legacy problems in the banking sector. In particular:

- **Weak Capital**: Banks that previously lacked adequate levels of capital were required to submit capital restoration plans to the Bank of Ghana, which they continue to implement under the supervision of the Bank of Ghana. More generally, the Bank of Ghana deemed it necessary to require all banks to increase their minimum paid-up capital from GHS 120 million to GHS 400 million by December 2018. The Bank of Ghana expects all banks to comply with this requirement by the specified date of December 2018. It remains our view that this new capital floor will help make banks stronger and resilient, and position them to better support the Ghanaian economy.

- **Liquidity challenges**: Persistent liquidity shortfalls had become the norm for a number of banks, as a result of poor credit risk and liquidity risk management practices. As a result, a number of banks were heavily dependent on the Bank of Ghana's emergency liquidity assistance (ELA) as their main source of liquidity. To avoid such undue reliance on ELA with attendant moral hazard risks and credit risks for the Bank of Ghana, the Bank of Ghana has initiated a review of its ELA framework to make it more robust and less prone to abuse.

- **Corporate Governance**: Good corporate governance is essential to building a strong banking sector. Poor governance practices were prevalent in some banks, associated with concentrated shareholding structures with control exercised by one or two key shareholders sometimes to the detriment of depositors, little or no independence on bank boards, and lack of compliance with the fiduciary responsibilities of bank directors. To strengthen corporate governance in the industry, the Bank of Ghana has recently published the Corporate Governance Directive which all banks are required to comply with forthwith.

- **Regulatory breaches:** Regulatory compliance in the industry was generally weak, with wanton breaches of regulatory requirements such as (i) failure to submit prudential returns; (ii) breach of single obligor limits; (iii) breach of exposure limits on related party loans/transactions; (iv) misreporting of financial data, and others. The Bank of Ghana has stepped up its enforcement regime to ensure that regulatory breaches are not countenanced. The recent closures of UT and Capital Bank as well as the appointment of an official administrator in respect of uniBank were evidence of a new approach of enforcing the regulatory framework to help protect the interests of depositors and the financial system as a whole.

9. Through effective supervision and enforcement, we will ensure that banks obtain and maintain the right levels of capital and liquidity, employ sound risk management practices, effective internal control systems, and good corporate governance, in order to remain safe, sound, and resilient. This should help to reduce the likelihood of bank failures, the loss of depositor funds, and the loss of jobs.

10. The Bank of Ghana remains committed to restoring trust and confidence in the banking system, and to promoting a strong and resilient banking sector to support robust macro-economic growth. To this end, Bank of Ghana will:

- Operationalize the deposit protection scheme established under the Ghana Deposit Protection Act, 2016 (Act 931) as amended, to provide further protection for depositors' funds;

- Ensure a smooth transition to the new capital requirement by December 2018;

- Address specific risks from high NPLs, weak corporate governance, and poor risk management systems;

- Continue to roll-out the Basel II/III supervisory framework, and ensure implementation of IFRS 9 by banks;

- Issue and strictly enforce "fit and proper person" guidelines for bank shareholders, directors, and key management personnel, to promote high standards in the industry;

- Strengthen regulation and supervision of bank holding companies and affiliate companies to reduce intra-group exposures;

- Continue to strengthen our Banking Supervision Department through capacity building and improved supervisory processes, in order to identify early warning signs of bank distress and to take prompt corrective action to address such risks.

11. In conclusion, the Bank of Ghana takes this opportunity to assure stakeholders that it will continue to monitor developments in the banking sector, and where needed, take strong and decisive action at an early juncture to address them, to ensure that depositors' funds remain safe and the financial system remains stable and resilient. We count on your full cooperation as stakeholders.

Thank you for your attention.