



Bank of Ghana

5th Annual Conference of the Bilateral Assistance And Capacity Building For Central Banks (BCC) Programme

(Theme: Macroprudential policy - Taking stock of the state of the art and ways forward)

Operationalizing the Macroprudential Framework: The Case Of Ghana

Presentation at The Graduate Institute,
Geneva, Switzerland, 21 – 22 September 2017

Disclaimer: The views expressed here does not represent that of Bank of Ghana



OUTLINE

- Overview of the Ghanaian Financial System
- Progress so far
- Challenges to the effort
- Conclusion



Overview of the Ghanaian Financial System- Structure of the Ghanaian System

	Dec-00		Dec-16	
Institutions	Number of Institutions	% of Total Assets	Number of Institutions	% of Total Assets
Universal Banks	16	76.90	30	75.74
- <i>State</i>	6	37.70	3	12.29
- <i>Private</i>	10	39.20	27	63.46
<i>Domestic</i>	5	4.00	10	22.82
<i>Foreign</i>	5	35.20	17	40.63
Rural Banks	113	2.00	139	2.85
Savings and Loans Companies	8	0.20	30	4.50
Mortgage Finance Companies	1	1.40	1	0.39
Insurance Companies	22	3.40	49	3.42
Leasing and Finance Companies	21	1.20	27	3.59
Pension Funds	1	12.50	1	8.32
Microfinance Institutions			401	1.19
Total Financial Sector Assets to GDP (%)	56.7		64.3	

Source: Bank of Ghana



Overview of the Ghanaian Financial System – Regulatory Arena

Bank of Ghana

(DMBs, Rural Banks, NBFIs)

SEC

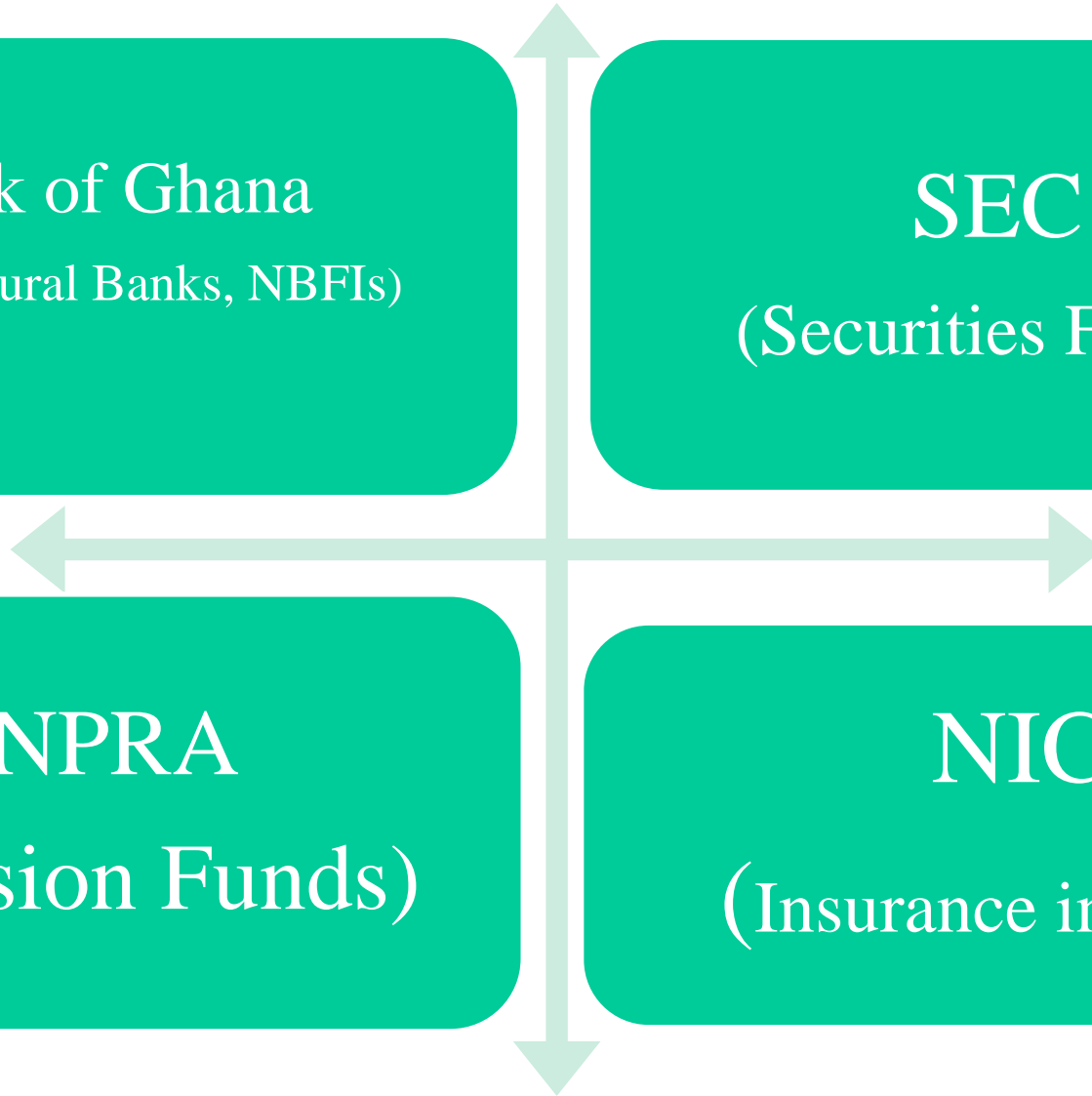
(Securities Firms)

NPRA

(Pension Funds)

NIC

(Insurance industry)





Progress So far – Institutional Arrangement

- Bank of Ghana mandated by law to promote sound and stable financial system.
 - Bank of Ghana Act 2002
 - Banks and specialized Deposit Taking Institution Act 2016
- Central Bank has hard power over banking sector based tools
 - Countercyclical buffer, LTVs, etc
- Soft powers
 - MOUs among regulatory bodies exist.
 - Representative on boards of other regulatory bodies

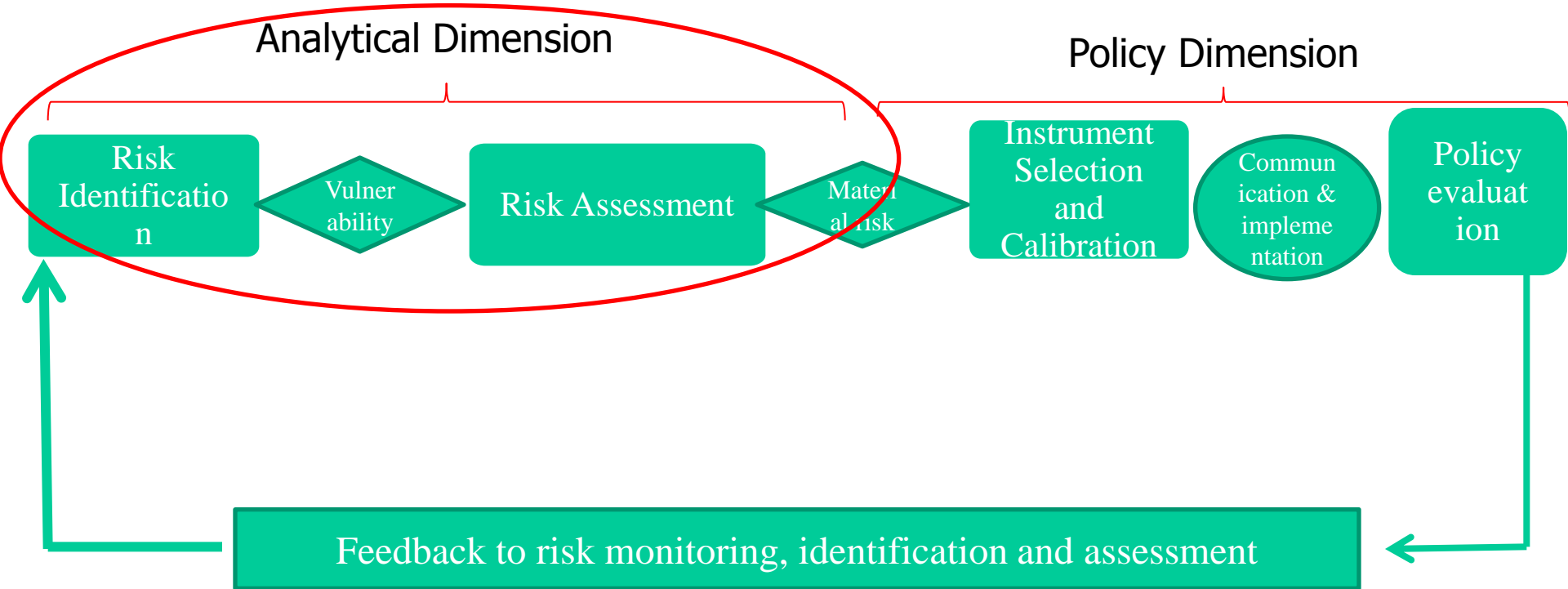


Progress So far - Institutional Arrangement

- Financial Sector Stability Committee has been set – up by the Central Bank
 - No external representation
- Financial Stability Council is being proposed by Government – Mandate being discussed.
- Central Bank has operational independence in executing mandate
 - But accountable to Ministry of Finance, Parliament and the Public



Progress So far – Implementation of Macroprudential Tools



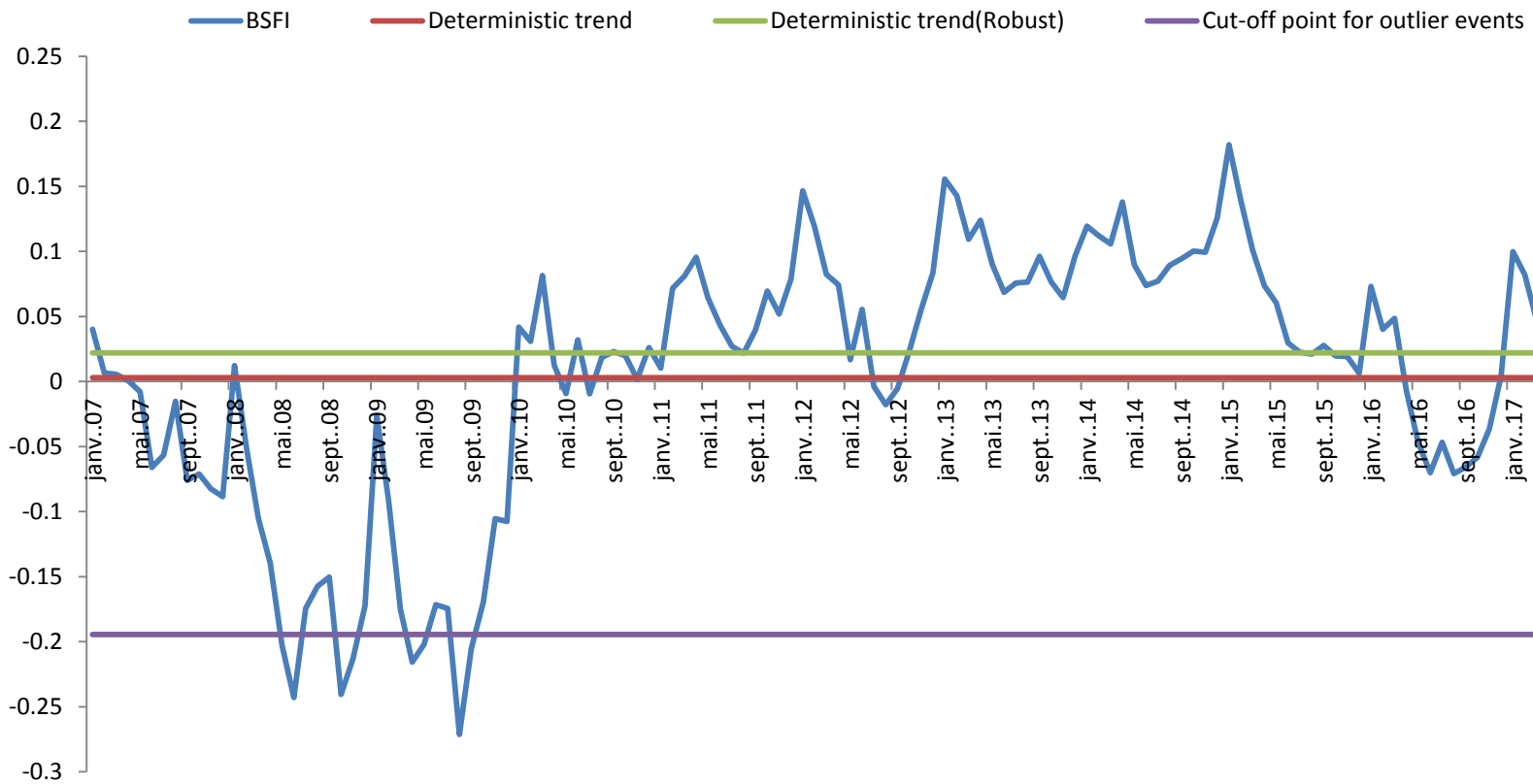
Source: ECB Macroprudential Framework



Progress So far – Implementation of Macroprudential Tools

☐ Some Analytical Framework in Place

○ Banking System Fragility Index

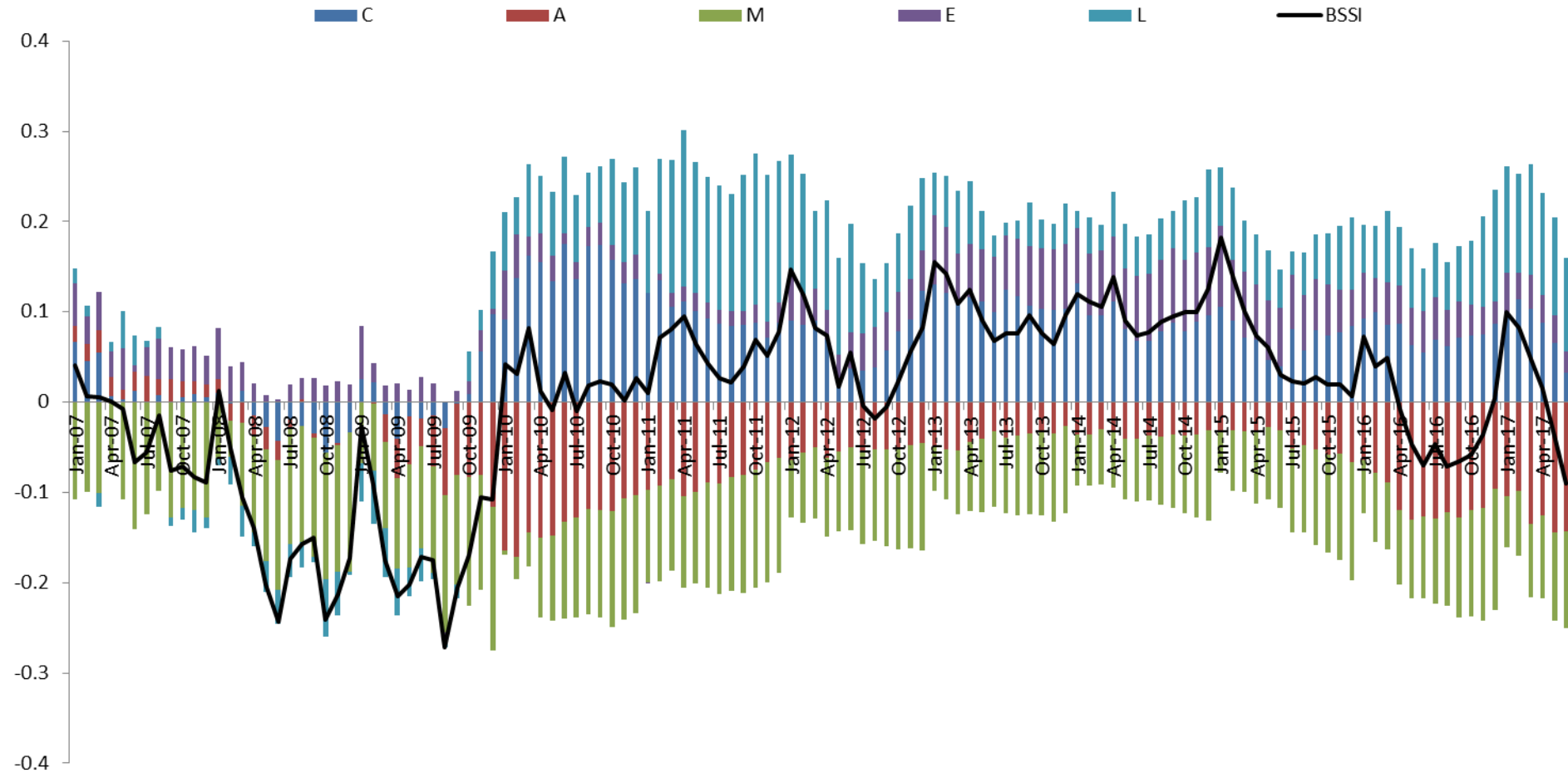




Progress So far – Implementation of Macroprudential Tools

□ Some Analytical Framework in Place

- Drivers of Banking System Fragility Index (C is capital adequacy index, A is asset quality, M is management efficiency measure, E – Earning and L is Liquidity)





Progress So far – Implementation of Macroprudential Tools

☐ Some Analytical Framework in Place

- Quartile Based Heat – up for the Banking Sector (10 year monthly performance indicator, Green is the best performing periods, blue, yellow and red indicating worse performance)

	Dec-13	Jun-14	Dec-14	Jun-15	Dec-15	Jun-16	Dec-16	Jun-17
HEAT MAP FOR CORE FSI								
Capital Adequacy Ratio								
Regulatory capital to risk weighted assets	18.5	16.1	17.9	16.2	17.8	16.2	17.8	14.8
Regulatory Tier I capital to risk-weighted assets	14.7	14.5	15.3	13.3	14.6	13.7	14.4	12.9
Asset Quality								
Nonperforming loans net of loan-loss provision to capital	8.3	12.9	11.2	11.1	14.7	23.8	15.8	17.9
Nonperforming loans to total gross loans	12.0	12.8	11.3	11.2	14.7	18.8	17.3	21.2
Earnings								
Return on assets	4.5	4.5	4.7	3.9	3.3	3.4	2.5	2.4
Return on equity	42.5	41.9	44.0	41.6	31.6	33.2	27.1	27.0
Liquidity								
Liquid asset to total assets*	21.7	25.7	26.8	26.3	26.4	24.4	27.2	25.4
Liquid asset to short-term liabilities	28.2	33.3	34.8	34.2	34.2	31.8	35.1	32.5
Liquid assets/total deposits	33.7	41.3	42.5	41.5	40.6	38.9	42.8	40.4



Progress So far – Implementation of Macroprudential Tools

❑ Some Analytical Framework in Place

- Cross – Border Analysis (Very important to us)
 - ✓ Developments in External Borrowing (Growth over time)
 - ✓ Placements/Investment offshore and Nostro balances (mainly banks)
 - ✓ Assessment of Top counterparties (Credit Rating)

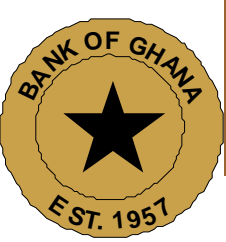


Progress So far – Implementation of Macroprudential Tools

❑ Some Analytical Framework in Place

- Macro- Financial Assessment

Macroeconomic Risk	Probability of Occurrence	Expected Impact
<p>Spillovers from the 2016 Domestic General Elections:</p> <p>The change in government brought optimism reflected in the improvement in the 1st quarter of 2017 Bank of Ghana business confidence survey. However, delays in appointing the Boards of state corporations and possible review, renegotiation and cancellation of previous regime contracts might create uncertainties and delay payment.</p>	<p>Medium to High</p>	<p>Low to Medium</p> <p>This is due to the fact that, possible slowdown of economic activities in state enterprises and cancellation of projects and contracts may delay payment and increase non – performing loans.</p>



Progress So far – Implementation of Macroprudential Tools

□ Some Analytical Framework in Place

○ Stress Testing

- ✓ Semi-annual

- ✓ All Universal Banks

- ✓ Scenario based covering credit, concentration, liquidity, interest rate and exchange rate risks.

- ✓ Bottom – up approach



Challenges to the Effort

□ Knowledge gap—BCC programme a big opportunity





Challenges to the Effort

Data issues/gaps

- Comprehensive financial data is indispensable in system risks Assessment
- Both availability and quality problems
- Availability problem
 - Currently no housing prices data exist
 - Not much on corporate data – Huge informal sector
- Quality issues
 - Creative accounting especially at shadow banking sector
 - Recent Asset Quality Review (AQR)



Challenges to the Effort

□ Macro-pru: uncharted territory

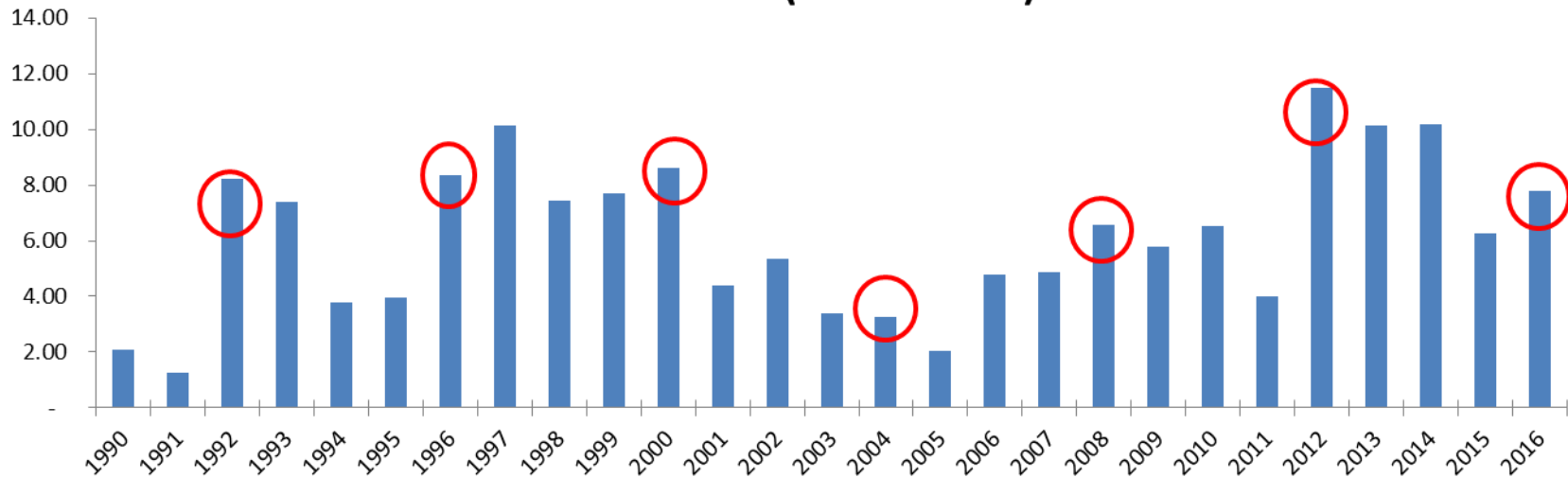
- Unlike monetary policy, macro-prudential policy is new and so there is limited knowledge on the impact and effectiveness of its key instrument.
 - How variations in CCB shape agents' expectations and economic activities. Eg. Impact on interest rate
 - DSIB Capital surcharges would influence other financial institutions
 - Sectoral measures such as LTV and DSTI ratios might interfere with the smooth working of the market system



Challenges to the Effort

□ Fiscal dominance

Fiscal Deficit (as % of GDP)



- Concerns that politicians may fight macro-prudential policies such as invoking countercyclical buffer in economic upswings especially in election years.
- In Ghana, the challenge with fiscal dominance has largely been the impact of fiscal policies on the asset quality of the banking system.



CONCLUSION

- ❑ Central Bank of Ghana is making tremendous effort to implement macroprudential framework
- ❑ However, many are the challenges that the central bank is confronted with as it navigates the uncharted waters of macro-prudential policy.
- ❑ Forums such as this is one of the several means by which knowledge can be shared, not only on mitigating the challenges but also sharpening the macro-prudential tools, to enable Africa central banks achieve the financial stability mandate and preserve its credibility.