

Paul A Acquah: Enhancing confidence in the Ghanaian financial system in the midst of the financial crisis

Keynote address by Dr Paul A Acquah, Governor of the Bank of Ghana, at The Ghana Banking Awards Gala Night, Accra, 9 May 2009.

* * *

Mr. Chairman,
Honorable Ministers of State,
Executives of Corporate Initiative Ghana,
Directors and Executive of Banks and Industry,
Distinguished Guests,
Ladies and Gentlemen,

Thank you for the opportunity to join you at this year's Ghana Banking Awards Gala Night, the eighth in the series held under the auspices of Corporate Initiative Ghana.

First of all, let me take this opportunity to commend Corporate Initiative Ghana for their foresight in institutionalizing this programme to offer a platform where consumers of banking services give public recognition to banks that they have adjudged to have excelled in various areas of their businesses over the year. I believe the annual awards in the various categories help to promote a competitive spirit, financial innovation, diversity of products and services, and efficiency in providing services to customers, and fostering confidence in the banking sector.

Today's event is organized around the theme "**Enhancing Confidence in the Ghanaian Financial System in the Midst of Global Financial Crisis**". [My reading is that the captains of industry do not seem to be having sleepless nights like their counterparts who have become the targets of some public outrage and visible scapegoats for the crisis in the industrialised countries].

This topic is very appropriate for this occasion. It offers the opportunity to draw lessons from this extra-ordinary global financial crisis and globally synchronized drop in economic activity and employment, and how it has spread in its severity across countries. We can look at it critically from our domestic perspective as we seek to anchor the financial sector as a pillar of growth in Ghana's economic development.

Mr. Chairman, the hallmark of the current crisis is its unprecedented complexity both in terms of its causes and effects. What ostensibly started as a sub-prime mortgage loan problem in the United States has transformed into a multi-faceted financial and economic turmoil. It has shaken the foundations of the financial architecture, the credit and equity markets, and the framework of financial regulations, asset valuations, and transfer of risks. And, the practical consequences have meant a loss of confidence and trust in the financial system on a scale that threatens financial stability.

Financial institutions have weakened under the weight of the write-offs of toxic assets and corporate and consumer credit losses. Banking failures have been a feature of the contagion effects in many advanced countries and emerging market economies. Indeed, the failure of Lehmann Brothers, an erstwhile reputable investment bank delivered a major jolt to the crisis of confidence in the global financial system, heightening fears of insecurity on the part of all market players (consumers, investors, borrowers and lenders alike).

Indeed, the fallout of the financial crisis for financial institutions has been dramatic. Major financial institutions such as AIG (American Insurance Group), Merrill Lynch, and Northern Rock have had to be bailed out through capitalization with public funds or nationalization, because they are "too big" to fail or "too coupled" with other institutions to be allowed to fail. Many others have simply declared bankruptcy and failed.

For developing countries such as ours, this crisis threatens to roll back the considerable progress of recent years in terms of economic growth and financial stability, prospects for improved standards of living, and provision of social safety nets, should the contagion become more severe and the impact not mitigated and well managed.

Ghana has not been immune to the effects of the crisis but the impact has been limited. With the deepening global recession, the flow of remittances, a significant source of foreign exchange resources, seems to have slowed down. Prices of Ghana's major exports commodities (gold and cocoa) remain reasonably firm, while oil prices have retreated for sometime on the international markets. Let me add, however that the global conditions remain fluid, especially with regard to capital flows and investments needed to support growth in developing countries.

One fundamental lesson from the global financial crisis is that a sound financial sector is vital to the health of the economy. Over the past years, the financial sector has been built on a strong regulatory and supervisory framework and a modern payments and settlement infrastructure. This has facilitated the development of a banking sector that is reasonably efficient, financially innovative, competitive, profitable, and growing quite rapidly. The size of the balance sheet of the banking system expanded by 37.2 percent to 52.5 percent of GDP in 2008, from 37.3 percent of GDP in 2003. Total deposits have risen to 34.2 percent of GDP from 23.4 percent of GDP in 2003. The industry now has a branch network of 642 compared with 332 in 2003.

Mr. Chairman, the Ghanaian banking sector is on a sound footing and well-positioned to strengthen its intermediation role. The direct links to the global financial crisis is mainly by way of banks' exposure to counterparties in the form of nostro balances and placements of funds with some correspondent banks abroad. Stress analysis suggests that only a significant default or recall of borrowings in excess of 50 percent by counterparties could pose material threat to their risk-adjusted capital. Moreover, stringent stress tests confirm that the industry as a whole is quite robust to exogenous macroeconomic shocks given the current level of capital adequacy of banks.

Mr. Chairman, over the past year, a number of measures were introduced that should re-enforce the ability of banks in Ghana to withstand shocks and protect the soundness of the financial system.

First, was the increase in the minimum capital of banks from GH¢7.0 million to GH¢60.0 million after due consultation with the banking industry. Some banks have already begun the capitalisation process.

Second, the regulatory and supervisory framework was strengthened with the passage of the Borrowers and Lenders Act, 2008 (Act 773), the Non-Bank Financial Institution Act, 2008 (Act 774), Home Mortgage Finance Act, 2008 (Act 770), and the Anti-Money Laundering Act, 2008 (Act 749).

Third, in recognition of the growing role of ICT in financial services delivery, the Bank published guidelines on branchless banking in August 2008, to allow collaboration between banks, telecom companies and merchants to provide greater access to banking and financial services for the banked, unbanked and under-banked segments of the society.

Fourth, a common electronic platform (the e-zwich) was established in a further development of the payment and settlement system making it possible to link all banking institutions with a biometric smartcard as a vehicle for financial inclusion of all segments of the population. This should help deposit-based financial intermediation.

Further, in line with international regulatory standards, the Bank of Ghana collaborated with the Ghana Institute of Chartered Accountants to push for implementation of IFRS (International Financial Reporting Standards) starting with the 2008 accounts. This has brought about greater transparency and comparability of reported financial results. All banks have complied broadly with the directive and reported in line with IFRS.

Mr. Chairman, I cannot over emphasize that a stable and vibrant financial system is a prerequisite for economic growth and expansion. I believe that as stakeholders, we can in our diverse ways, play an immeasurable role in ensuring that our financial system is safe and secure. In this regard, it will be important to re-commit to the tenets of an unwritten compact that are essential to maintain the confidence and trust of the public.

- The first is prudent lending system in which banks are innovative, take initiative without excessive risks out of proportion to their risk-adjusted capital, and bring full transparency and disclosure to their lending practices including pricing, fees in the delivery of services to the public.
- The second is prudent borrowing and respect for loan contracts with serious commitment to honouring debt obligations whether corporate or household borrower.
- The third is effective prudential supervision of the financial system within the framework of predictable transparent regulations and laws that are enforced even-handedly.
- Finally, maintaining an environment of macroeconomic stability as well as well-anchored inflation expectations for business planning and investment is indispensable for a sound and dynamic financial services industry.

Let me say in closing that the uncertainty about the depth and duration of the global recession and restoration of global financial stability underscores the power of confidence and its mutually re-enforcing impact on expectations in shaping economic behaviour. Managing the repercussions of the global crisis to stay on a sustained growth path is the task of macroeconomic and financial policies, and enhancing confidence in our financial system.

I am sure that the captains of industry and all stakeholders will work hard to keep our system in a position to contribute to accelerated growth and steady improvement in living standards.

Thank you all for your attention.