BANK OF GHANA
Banking Sector Report

January 2020

CONTENTS

1. PREFACE

The Bank of Ghana releases the Banking Sector Report after each Monetary Policy Committee (MPC) meeting. The Report provides an overview of banking sector developments, which served as input for financial sector assessments during the MPC session. Through the publication, Bank of Ghana aims to promote accountability and transparency in the monetary policy formulation and implementation process.

Monetary Policy in Ghana

The primary objective of the Bank of Ghana is to pursue sound monetary policies aimed at price stability and creating an enabling environment for sustainable economic growth. Price stability is broadly defined within the in this context is defined as a medium-term inflation target of 8 percent with a band of ±2 percent. This target band is consistent with the objective of attaining the desired long-term average rate of growth for the economy. Other objectives include promoting and maintaining a sound financial sector and payment systems through effective regulation and supervision as spelt out in the Bank of Ghana Act 2016 (Act 918, *as amended*. This is important for financial intermediation and effective transmission of monetary policy decisions.

Monetary Policy Strategy

To achieve the objective of price stability, Bank of Ghana employs the appropriate policy tools needed to stabilise inflation around the medium-term target. The Bank of Ghana adopted the Inflation Targeting (IT) Framework for conducting its monetary policy. The IT framework, which uses the Monetary Policy Rate (MPR) as the key policy tool that provides guidance on the monetary policy stance and helps anchor inflation expectations.

The MPC Process and Operational Arrangements

The MPC is a statutorily constituted body by the Bank of Ghana Act 2016 (Act 918, *as amended*) to formulate monetary policy. The MPC consists of seven members — five members from the Bank of Ghana, including the Governor who acts as the Chairman of the Committee, and two external members. The MPC meets bi-monthly in the course of the year to assess economic conditions and risks to the inflation and growth outlook. The Committee, after assessing recent economic conditions and taking a forward-looking view of the evolution of key macroeconomic indicators, then votes to position the MPR through a process of consensus building with each member assigning reasons for the stated or preferred direction of the policy rate. Each interest rate decision provides a signalling of the stance of monetary policy. The MPC meeting dates are determined well in advance and published on the Bank's website at the beginning of each year. In line with the transparency aspects of the framework, the Bank publishes the MPC Press Release after the press conference held at the end of each MPC meeting to communicate and explain the Committee's decisions to the financial markets and the public.

2. SUMMARY

This report discusses performance of the banking sector based on data from the December 2019 prudential returns of the twenty-three (23) banks.

The financial performance of the banking industry improved significantly in December 2019, exactly a year after completion of the reforms in the sector. This reflected in the growth of banks' balance sheet size and profitability, as well as improvement in key financial soundness indicators. In the year, the sector recorded a strong growth in total assets funded mainly by deposits, which signalled renewed confidence in the banking sector. The pickup in deposits together with increased capital levels, gave impetus to strong credit growth during the period under review. Profitability also improved relative to last year with banks posting a stronger profit outturn in December 2019.

Furthermore, key Financial Soundness Indicators (FSIs) of the industry significantly improved underscoring a more stable and resilient banking sector. Under a more stringent capital adequacy regime, the banking sector remained solvent with the Capital Adequacy Ratio (CAR) well above the regulatory 13 percent prudential limit under the Basel II/III framework. Asset quality also improved significantly with the sharp decline in Non-Performing Loans (NPL) ratio due to recoveries, write-offs, and pickup in credit growth.

Broadly, the recapitalization and regulatory reforms have enhanced performance of the banking industry. Currently, the sector well positioned to undertake efficient financial intermediation to support growth in the Ghanaian economy. The outlook for the industry is positive and banks' performance will improve further as sound risk management rules are pursued an enhanced regulatory regime.

3. BANKING SECTOR DEVELOPMENTS

3.1 Banks' Balance Sheet

Total assets of the banking sector amounted to GH¢129.06 billion in December 2019, representing a 22.8 percent year-on-year growth compared with 12.3 percent growth in December 2018. The stronger total assets growth in December 2019 reflected higher growth in both domestic and foreign assets of the banking sector. Domestic assets rose by 23.1 percent to GH¢118.69 billion in December 2019, compared to the 12.5 percent growth recorded in the previous year, while foreign assets grew by 19.8 percent to GH¢10.38 billion during the same period, compared to 9.6 percent growth in December 2018 [See Table 1]. The higher growth in domestic assets translated into an increase in the share of domestic assets in total assets to 92.2 percent in December 2019 from 90.3 percent in December 2018, with the share of foreign assets declining accordingly to 7.8 percent from 9.7 percent over the same comparative period.

Banks' total investments comprising bills, securities and equity increased by 27.0 percent to GH¢48.45 billion in December 2019 compared with the 33.6 percent growth recorded for the same period in December 2018. The sharp growth in total investments in 2018 was largely due to the special (long-term) resolution bonds issued to Consolidated Bank Ghana (CBG). This led to long-term investments increasing by 115.8 percent in December 2018, while short term investments contracted by 24.5 percent. A year after this development, growth in long-term investments (securities) normalised to 30.1 percent (GH¢33.03 billion) in December 2019, while short-term investments (bills) picked up by 21.1 percent to GH¢14.98 billion as at end- December 2019 [Table 1]. However, the larger growth in securities in December 2019 compared to the short-term bills reflected banks' preference for longer dated instruments in 2019.

Credit growth rebounded strongly with a 23.8 percent increase in gross loans and advances to GH¢45.17 billion in December 2019, a reversal of the 3.5 percent contraction a year earlier. Similarly, net advances (gross loans adjusted for provisions and interest in suspense) grew by 25.7 percent to GH¢39.96 billion following a marginal inch-up of 1.0 percent in December 2018. The foreign currency component of net advances denominated in Ghana Cedi recorded a higher growth of 21.5 percent to GH¢12.12 billion in December 2019, from GH¢9.97 billion (15.5% y/y growth) in December 2018, partly due to the depreciation of the Ghana Cedi over the period.

Non-earning assets of banks (comprising both fixed assets and other assets) increased by 26.1 percent in December 2019 compared with a contraction of 15.6 percent a year ago. This was explained by the sharp increases in the growth of other assets and fixed assets by 39.2 percent and 14.3 percent to GH¢5.07 billion and GH¢4.65 billion respectively in December 2019 (compared with contractions of 26.8% and 2.3% in December 2018). The growth reflected increased business activities. Non-earning assets however remained a small component of total assets for the banking sector in December 2019.

The banking sector continued to rely heavily on deposits mobilized mainly from the domestic economy to finance assets in 2019. Of the total banking sector deposits of GH¢83.46 billion as at end-December 2019, domestic deposits accounted for 99.6 percent, while the share of deposits from non-residents was at 0.4 percent. Total deposits recorded a 22.2 percent growth in December 2019, against 17.3 percent growth in December 2018, driven mainly by similar growth in domestic deposits (22.4 percent, up from 17.5 percent), and signifying sustained confidence in the sector following the reforms. The foreign currency deposits component (denominated in Ghana Cedis) of total deposits recorded a 43.0 percent growth to GH¢83.46 billion in December 2019, relative to the 14.1 percent growth in December 2018. [See Table 1].

Total borrowings by banks increased by 37.9 percent to GH¢20.45 billion as at end-December 2019, a reversal of the 12.4 percent contraction recorded a year earlier. This was on the back of increased short-term borrowings while growth in long-term borrowings moderated. The increase in total borrowings was in line with the rebound in credit activities during the year. Similar to deposits, banks' borrowings were largely from domestic sources. Banks' domestic borrowings increased by 42.3 percent in December 2019 compared with a contraction of 40.0 percent in December 2018. Growth in banks' borrowings from external sources however moderated to 33.2 percent from 71.0 percent in December 2018, due to a slowdown in long-term foreign borrowings by banks.

The industry's capital base remained strong a year after recapitalisation. Paid-up capital went up by 11.3 percent to GH¢9.63 billion in December 2019 from GH¢8.65 billion in December 2018. The industry's shareholders' funds also scaled up by 19.6 percent to GH¢17.58 billion in December 2019 from GH¢14.70 billion in December 2018, indicating a build-up in banks' reserves as profitability improved within the sector. Other liabilities (other than deposits, borrowings and shareholders' funds) inched up by 3.9 percent to GH¢7.58 billion during the period under review, lower than the 17.4 percent increase a year earlier.

Overall, the banking sector's balance sheet position, one year after the reforms turned out a stronger performance in 2019, with higher growth rates in all the key indicators. These developments underscore the positive impact of the recapitalisation and other regulatory reforms of the banking sector as discussed in Box 1.

	GH¢ million				Y-on-Y Growth (%)			Shares (%)		
	Dec-17	Dec-18	Oct-19	Dec-19	Dec-18	Oct-19	Dec-19	Dec-18	Oct-19	Dec-19
TOTAL ASSETS	**93,627.4**	**105,115.3**	**121,033.3**	**129,064.7**	**12.3**	***13.8***	***22.8***	**100.0**	***100.0***	***100.0***
A. Foreign Assets	7,904.2	8,663.2	9,494.0	10,377.1	9.6	*(7.7)*	*19.8*	8.2	*7.8*	*8.0*
B. Domestic Assets	85,723.3	96,452.0	111,539.3	118,687.6	12.5	*16.1*	*23.1*	91.8	*92.2*	*92.0*
Investments	28,571.9	38,164.8	47,466.7	48,454.0	33.6	*10.8*	*27.0*	36.3	*39.2*	*37.5*
i. Bills	16,380.5	12,371.3	16,472.3	14,977.5	(24.5)	*11.2*	*21.1*	11.8	*13.6*	*11.6*
ii. Securities	11,768.2	25,390.7	30,994.4	33,025.2	115.8	*10.8*	*30.1*	24.2	*25.6*	*25.6*
Advances (Net)	31,463.9	31,790.4	36,479.9	39,959.6	1.0	*19.4*	*25.7*	30.2	*30.1*	*31.0*
of which Foreign Currency	8,634.8	9,971.2	11,792.2	12,118.7	15.5	*27.4*	*21.5*	9.5	*9.7*	*9.4*
Gross Advances	37,829.5	36,496.9	41,594.8	45,170.0	(3.5)	*17.2*	*23.8*	34.7	*34.4*	*35.0*
Other Assets	4,976.8	3,642.8	4,519.8	5,071.8	(26.8)	*19.1*	*39.2*	3.5	*3.7*	*3.9*
Fixed Assets	4,165.4	4,068.9	4,324.9	4,652.1	(2.3)	*12.1*	*14.3*	3.9	*3.6*	*3.6*
TOTAL LIABILITIES AND CAPITAL	**93,627.4**	**105,115.3**	**121,033.3**	**129,064.7**	**12.3**	***13.8***	***22.8***	**100.0**	***100.0***	***100.0***
Total Deposits	58,209.3	68,289.7	78,897.2	83,459.8	17.3	*17.1*	*22.2*	65.0	*65.2*	*64.7*
of which Foreign Currency	14,718.1	16,788.1	20,784.6	24,001.4	14.1	*22.4*	*43.0*	16.0	*17.2*	*18.6*
Total Borrowings	16,929.3	14,827.0	17,053.1	20,446.9	(12.4)	*(5.7)*	*37.9*	14.1	*14.1*	*15.8*
Foreign Liabilities	4,590.4	7,555.7	9,741.5	9,923.5	64.6	*17.5*	*31.3*	7.2	*8.0*	*7.7*
i. Short-term borrowings	2,409.0	4,331.5	6,240.8	6,710.3	79.8	*23.4*	*54.9*	4.1	*5.2*	*5.2*
ii. Long-term borrowings	1,791.3	2,852.2	3,103.0	2,856.9	59.2	*7.5*	*0.2*	2.7	*2.6*	*2.2*
iii. Deposits of non-residents	390.2	372.1	397.7	356.2	(4.6)	*16.3*	*(4.3)*	0.4	*0.3*	*0.3*
Domestic Liabilities	76,739.1	82,754.6	93,956.5	101,561.0	7.8	*11.9*	*22.7*	78.7	*77.6*	*78.7*
i. Short-term borrowing	11,401.1	6,765.4	6,588.6	9,759.6	(40.7)	*(13.8)*	*44.3*	6.4	*5.4*	*7.6*
ii. Long-term Borrowings	1,328.0	878.0	1,120.7	1,120.0	(33.9)	*(55.1)*	*27.6*	0.8	*0.9*	*0.9*
iii. Domestic Deposits	57,819.2	67,917.6	78,499.4	83,103.6	17.5	*17.1*	*22.4*	64.6	*64.9*	*64.4*
Other Liabilities	6,212.7	7,291.0	7,747.8	7,577.8	17.4	*11.2*	*3.9*	6.9	*6.4*	*5.9*
Paid-up capital	4,579.1	8,654.6	9,257.5	9,633.2	89.0	*38.4*	*11.3*	8.2	*7.6*	*7.5*
Shareholders' Funds	12,271.4	14,702.5	17,335.2	17,580.1	**19.8**	*24.7*	***19.6***	**14.0**	*14.3*	***13.6***

Source: Bank of Ghana

3.1.1 *Asset and Liability Structure*

The asset and liability structure of the industry's balance sheet remained broadly unchanged between December 2018 and December 2019. Investments continued to dominate the asset mix followed by loans and advances, cash and due from Banks and lastly, non-earning assets. The share of investments in total assets inched up from 36.3 percent to 37.5 percent during the period. The rebound in credit growth in 2019 also led to the share of net advances in total assets increasing marginally to 31.0 percent in December 2019, from 30.3 percent in December 2018. The share of Cash and Due from Banks declined to 23.9 percent from 26.0 percent during the period under review. The share of non-earning assets (fixed assets and other assets) recorded a marginal increase to 7.5 percent from 7.3 percent over the same comparative period. [See Annexes Table 1].

On the liability side, deposits continued to dominate the funding mix of banks although its share in the banks' pool of funds declined marginally to 64.7 percent in December 2019 from 65.0 percent in December 2018. The importance of borrowings as a source of funding for the banks in December 2019 increased, with a pickup in the proportion of borrowings in banks' total funding to 15.8 percent from 14.1 percent during the review period. Banks continued to rely on internally generated funds as a source of funding. However, the size of shareholders' funds in banks' overall funding structure dipped to 13.6 percent from 14.0 percent. The share of other liabilities also recorded a marginal decline to 5.9 percent from 6.9 percent between December 2019 and December 2018 [See Annexes Table 1].

3.1.2 *Share of Banks' Investments*

Banks' investment portfolio as at end-December 2019 was largely skewed towards long-term debt instruments. The share of securities increased to 68.2 percent in December 2019 from 66.5 percent in December 2018. The proportion of short-term bills in total investments accordingly declined to 30.9 percent from 32.4 percent between the two periods. Investments in equities also moderated marginally to 0.9 percent from 1.1 percent over the same comparative period [See Figure 1].

3.2 Credit Risk

The banking industry recorded a significant improvement in asset quality between December 2018 and December 2019. The main asset quality indicator, the NPL ratio declined during the review period supported by loan recoveries, write-offs, and increases in credit. Ongoing measures to strengthen the credit risk management practices of banks' should help minimise the credit risk of the industry, sustain the improvement in the size and quality of loans, and safeguard the quality of the new capital in the banking sector.

3.2.1 Credit Portfolio Analysis

Credit growth gained momentum at year-end, with gross loans and advances (excluding the loans under receivership) increasing by 23.6 percent in December 2019 against a contraction of 3.7 percent in December 2018. Private sector credit also grew by 17.9 percent to GH¢39.36 billion over the same period after contracting by 3.4 percent in December 2018. Household credit however recorded a slower growth of 12.6 percent in December 2019 from 40.7 percent in December 2018 [See Annexes Table 2].

Private sector credit still constitutes the larger proportion of credit in the banking sector. Its share however declined to 87.1 percent in December 2019 from 91.4 percent in December 2018 while the share of public sector credit accordingly increased to 12.9 percent from 8.6 percent during the review period. The dip in the relative share of private sector credit in total credit reflected in declines in the share of credit to households and private enterprises. Specifically, the share of credit to private enterprises declined to 63.8 percent from 66.3 percent while the share of household credit dipped to 20.8 percent from 22.9 percent over the same comparative period. Credit to indigenous enterprises was the largest component of private sector credit, accounting for 55.4 percent of total credit in December 2019 while foreign companies were allocated 8.4 percent of total credit from the banking sector, summing up to the 63.8 percent share allocated to private enterprises. The rise in the share of the industry's credit to the public sector reflected in all the sub-components, namely, credit to the government, public institutions and public enterprises [See Annexes Table 4].

In terms of credit distribution, services had the highest share of credit (24.1%) as at December 2019 followed by the commerce and finance sector (20.9%). The third largest recipient of credit was the manufacturing sector with 10.9 percent. These three sectors accounted for 55.9 percent share of the banking sector's credit in December 2019, while the remaining 44.1 percent went to the other economic sectors in various proportions as shown in Figure 1.

3.2.2 Off-Balance Sheet Activities

Banks' off-balance sheet transactions (largely comprising trade finance and guarantees) increased in December 2019, compared with the same period last year. However, the rate of growth in banks' contingent liabilities slowed to 16.2 percent in December 2019 compared with 22.0 percent in December 2018. Accordingly, banks' contingent liabilities of GH¢11.44 billion constituted 10.3 percent of total liabilities as at end-December 2019, a decline from the share of 11.5 percent in December 2018 [See Annexes Table 3].

3.2.3 Asset Quality

The industry's asset quality improved significantly during the period under review. The stock of the industry's Non-Performing Loans (NPLs) declined further by 5.2 percent to GH¢6.30 billion in December 2019, following a contraction of 18.9 percent a year earlier. The decline in the stock of NPLs was due to a combination of loan recoveries and further write-offs. The positive effect of the decline in the stock of NPLs on the NPL ratio influenced by a strong pick up in gross credit within the review period, with a resultant decline in the NPL ratio to 13.9 percent in December 2019 from 18.2 percent in December 2018.

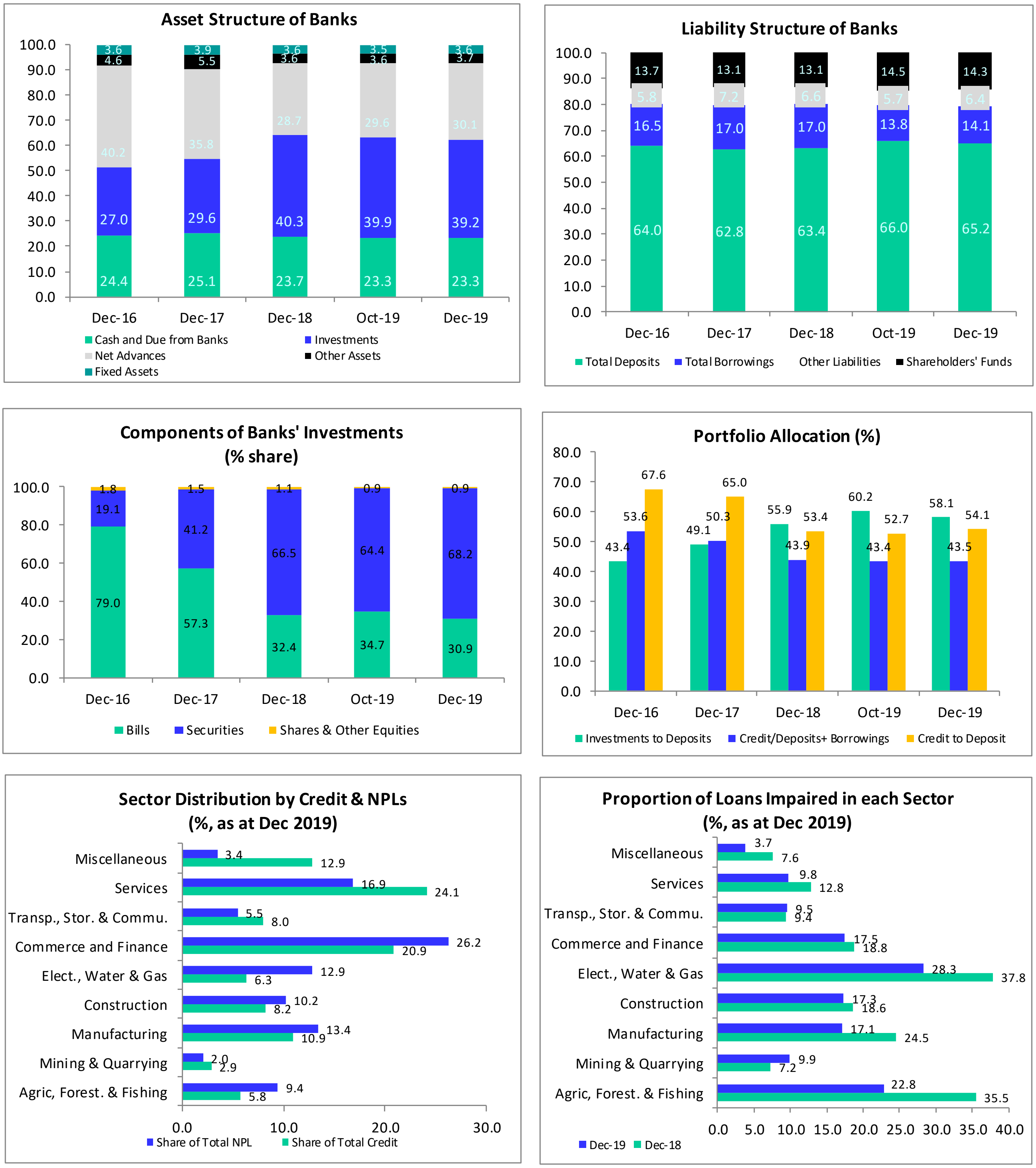
The industry's NPL ratio adjusted for the fully provisioned loss loan category also declined to 6.7 percent in December 2019 from 10.2 percent in December 2018. Continued implementation of the ongoing loan write-off policy, intensified loan recoveries, and enhanced risk management practices, could support further reduction in the industry's stock of NPLs.

The private sector continued to account for the highest proportion of NPLs in the industry. However, its share in total banking industry NPLs declined marginally to 96.7 percent in December 2019 from 97.1 percent in December 2018 while the share of NPLs attributed to the public sector increased to 3.3 percent from 2.9 percent over the same period. The share of NPLs attributed to the central government and public institutions (components of public sector NPLs) declined during the period under review [See Annexes Table 4].

A review of the sector contribution to the industry's NPLs showed that the top three sector credit recipients constituted the top three contributors to the industry's NPLs. The services sector with the largest credit allocation, held a lower share of total NPLs of 16.9 percent compared with the proportion of NPLs attributed to the commerce and finance sector of 26.2 percent. The manufacturing sector had a share of 13.4 percent in industry NPLs as at end December 2019. The mining & quarrying sector, with the least share in total credit also accounted for the least share in total industry NPLs of 2.9 percent.

The overall decline in the NPL ratio broadly reflected the trend in NPLs by sectors, with broad improvement in the NPL ratios across most of the sectors, except for the mining & quarrying, and the transportation, storage & communication sectors. In particular, the sectors with the highest NPL ratios in the industry recorded significant improvements in asset quality within the review period; from 37.8 percent to 28.3 percent for the electricity, water & gas sector, and from 35.5 percent to 22.8 percent for the agriculture, forestry & fishing sector. Transport, storage & communication (9.5%), services (9.8%), and the mining & quarrying (9.9%) sectors accounted for the lowest NPL ratios [See Figure 1].

Figure 1: Developments in Banks' Balance Sheet & Asset Quality



3.3 Financial Soundness Indicators

The key financial soundness indicators of the banking sector as at end-December 2019 showed broad improvements compared with the prior year's position.

3.3.1 Liquidity Indicators

The liquidity position of the industry remains strong registering only some marginal declines in the operational liquidity indicators. The industry's ratio of core liquid assets (mainly cash and due from banks) to total deposits declined to 37.0 percent in December 2019 from 40.1 percent in December 2018 while the ratio of core liquid assets to total assets also dipped to 23.9 percent from 26.0 percent over the same comparative period. The strong growth outturn in deposits and assets during the review dampened the core liquidity ratios [see Table 1].

Similarly, the ratio of broad liquid assets to total deposits went down marginally to 94.5 percent from 95.4 percent while the ratio of broad liquid assets to total assets also experienced a marginal dip to 61.1 percent from 62.0 percent [See Annexes Table 5].

3.3.2 Capital Adequacy Ratio (CAR)

The Capital Adequacy Ratio (CAR) is a key measure of the banking industry's solvency position, its ability to absorb potential losses from credit and operational risks, and an overall indicator of banking sector stability. As expected, the rebound in credit growth has resulted in the gradual decline in CAR. However, the industry's solvency remains strong with the CAR of 17.5 percent as at end-December 2019 well above the statutory minimum of 10.0 percent and the required prudential capital conservation buffer of 3.0 percent under the Basel II/III framework. [See Figure 2].

Figure 2: Key Financial Soundness Indicators (FSIs)

3.3.3 Profitability

The banking industry a posted a stronger profitability performance in 2019. The industry's profit after tax of GH¢3.31 billion, represented a 37.7 percent growth compared with the 12.5 growth recorded in 2018. The higher increase in the net income in 2019 was on the back of significant increases in both net interest income and fee and commission income outstripping the growth in operating expenses.

In more specific terms, net interest income grew by 23.6 percent to GH¢9.27 billion in 2019 compared to a marginal 1.5 percent growth recorded in 2018. Net fees and commissions was GH¢2.24 billion in 2019, representing an uptick in growth of 15.3 percent compared to the growth of 14.6 percent observed in 2018.

On the expenditure side, operating expenses grew by 11.1 percent in 2019 compared to 6.1 percent in 2018, on the back of higher growth in both staff costs and other operating expenses. Total provisions (comprising largely loan loss provisions and depreciation) recorded a lower growth of 4.6 percent in 2019 than the 22.7 percent recorded in 2018.

In sum, the higher growth in the key revenue lines outstripped the increase in the expenditure, resulting in the stronger profit performance in 2019 compared to 2018 [See Annexes Table 7].

(a) Return on Assets and Return on Equity

The stronger profit outturn during the review period translated into higher profitability indicators, including the after-tax Return on Equity (ROE) and before-tax Return on Assets (ROA). The sector's ROE accordingly increased to 19.9 percent as at end-December 2019 from 18.5 percent in December 2018 while the ROA went up to 4.1 percent in December 2019 from 3.3 percent a year earlier. Increases in both ratios signify enhanced resource utilisation of both shareholders' funds and total assets. [See Figure 2 and Annexes Table 6].

(b) Interest Margin and Spread

Banks' interest spreads widened to 11.8 percent in December 2019 from 9.6 percent in December 2018 on the back of an increase in gross yield following the growth in earning assets (investments and credit) for the banks. Gross yield for the banking sector increased to 17.9 percent from 15.5 percent during the review period reflecting in part, high yields on longer-dated instruments. Interest payable on the other hand went up to 6.1 percent from 5.9 percent over the same comparative period.

The ratio of gross income to total assets (asset utilisation) declined to 13.7 percent in 2019 from 14.7 percent in 2018 due to stronger growth in assets than income growth during the review period. The industry's interest margin to total assets however inched up to 7.2 percent from 7.1 percent, while the interest margin to gross income ratio similarly increased to 52.4 percent from 48.7 percent. The industry's profitability ratio also went up to 18.7 percent in December 2019 from 15.6 percent a year earlier, all emanating from the strong profit performance [See Annexes Table 6].

(c) Composition of Banks' Income

The components of the banking industry's income largely reflected its assets composition. Interest income from investments was the largest with a share of 44.6 percent in total income in 2019 from 42.4 percent in 2018. Interest income from loans was the second largest but its share marginally declined to 34.8 percent from 36.4 percent. The third largest income source for the banking industry, fees and commissions, accounted for 12.7 percent of total income in 2019, marginally above the 12.6 percent share in the prior year. The share of other income declined to 7.9 percent from 8.7 percent during the period under review [See Figure 3].

3.3.4 Operational Efficiency

Key efficiency indicators improved during the review period. The industry's cost-to-income ratio improved to 81.2 percent in 2019 from 84.3 percent in 2018, while cost to total assets also improved to 11.1 percent from 12.4 percent over the period. Despite the higher annual growth in operational cost in 2019, the ratio of operational cost to gross income declined to 54.1 percent from 54.3 percent on account of the higher growth in gross income during the period. The ratio of operational cost to total assets similarly declined from 8.0 percent to 7.4 percent during the period [See Figure 2].

3.4 Banks' Counterparty Relationships

The banking industry's exposure to cross border risks increased during the period under review. The stock of balances with foreign counterparties increased by 19.2 percent in December 2019 to GH¢9.72 billion following a growth of 10.8 percent in December 2018. The ratio of offshore balances to net worth accordingly increased to 19.2 percent in December 2019 compared to 10.8 percent a year ago. The higher growth in December 2019 was due to a 61.4 percent growth in nostro balances during the same period after remaining flat in December 2018. Placements abroad however contracted by 14.3 percent in December 2019 following a 21.4 percent growth a year earlier [See Annexes Table 8].

The slowdown in growth in domestic borrowing by the banking sector resulted in a decline in its share of total borrowing to 53.2 percent in December 2019 from 75.2 percent in December 2018, while the share of foreign borrowing increased to 46.8 percent from 24.8 percent during the same review period. Banks' external borrowing was mainly long term in nature. The share of long-term funds in total external borrowing increased to 70.1 percent from 57.4 percent during the review period while the share of short-term borrowing in external funds declined to 29.9 percent in December 2019 from 42.6 percent in December 2018 [See Figure 3].

Figure 3: Composition of Income, Cost and Borrowings

4. CREDIT CONDITIONS SURVEY

Banks reported a net ease in the overall credit stance on loans to enterprises during the December 2019 credit conditions survey relative to the October 2019 survey round. The net ease in the overall credit stance to enterprises was on the back of an easing stance on long-term enterprise loans, short-term enterprise loans and loans to large enterprises. However, the stance on loans to small and medium enterprises tightened in net terms.

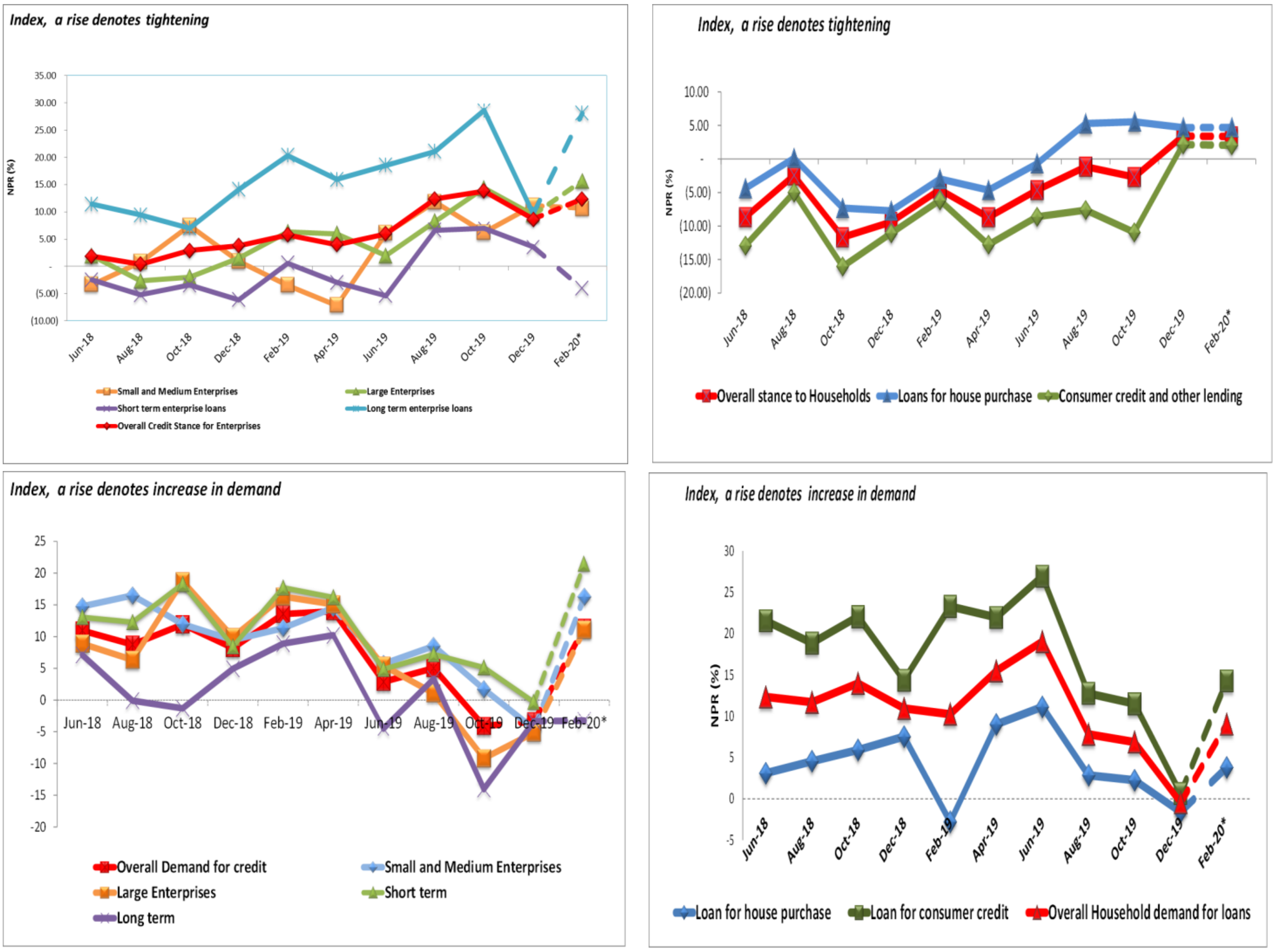
Banks however anticipate some tightening in the overall stance on loans to long-term enterprise and large enterprises in the first two months of 2020. The credit stance on loans to SMEs as well as short-term enterprise loans are likely to ease during the same period. The projected net tightened stance during the first two months of 2020 largely suggests intensified credit risk assessment practices by banks in the form of improved due diligence and credit underwriting practices to preserve the quality of banks' loans books.

Banks' stance on loans to households however tightened during the last two months of 2019 largely due to a net tightened stance on loans for consumer purchases and other lending. The seasonal tightened stance by banks on loans for consumer credit and other lending at year-end partly reflects anticipated increase in demand for loans by households during the yuletide. The more stable form of household credit and loans for house purchases however recorded a net ease in stance due to more structured, stable, and secured cash flows. Banks however project the overall stance on loans to households to remain broadly unchanged during the first two months of the year from the projected unchanged stance on loans for house purchases while the stance on loans for consumer credit and other lending is projected to marginally tighten.

The December 2019 survey also pointed to net increases in the overall demand for credit by enterprises. The net increase in the enterprise demand for credit came from increases in the demand for both long-term enterprise loans and loans by large enterprises, while demand for short term loans and by SMEs declined. The overall demand for credit by households however declined with less demand for consumer credit and other lending, as well as demand for loans for house purchases. For the next two months, banks indicated a much stronger pickup in the demand for credit by enterprises from all the subcomponents of enterprise credit, while demand for credit by households could rebound over the same period [See Figure 4].

Banking sector inflation expectations dipped during the December 2019 survey indicating that banks expect inflation to decline six-months ahead. The strong performance of the economy and continued decline in actual inflation contributed to the decline in inflation expectations by the banking sector. Banks expect lending rates to remain broadly unchanged six-months ahead. However, lending rates are likely to ease as the risk premium on loans measured by the NPL ratio continues to decline.

Figure 4: Credit Conditions Survey Results



5. CONCLUSION AND OUTLOOK

A year after the reforms, the banking sector's performance has improved significantly underpinned by strong asset growth and a healthier financial position. The key balance sheet indicators, that is, deposits, credits, total assets, and shareholders' funds improved. Other key financial soundness indicators reflecting the soundness and stability of the industry also improved. The strong growth in credit was broadly in line with expectations following the recapitalisation exercise and other regulatory reforms. Looking ahead, banks would continue to deepen intermediation while adopting sound banking practices and stronger risk management practices to help consolidate the gains made from the reforms. The Bank of Ghana would also continue to strengthen its supervision and monitoring roles to facilitate a competitive, efficient, and stable banking sector.

BOX 1: Impact of the Financial Sector Clean Up and Recapitalisation - One Year On

The Bank of Ghana embarked on a banking sector clean up, recapitalization, and other regulatory reforms from mid-2017 to end-December 2018 in line with its mandate to promote the safety, soundness, and stability of the financial system to support economic growth. This Box reviews the performance of the banking sector exactly one year after the completion of the reform programme.

The first major assessment criteria of the reform process is the growth of the banking sector. Although the recapitalisation process scaled down the number of banks to 23 in Dec-2018 from 33 in Dec-2016, the industry's balance sheet indicators pointed to a stronger growth performance in the key performance matrix. Growth in total assets, a key measure of the size of the banking sector, almost doubled, to 22.8 percent in 2019 from 12.3 percent in 2018, supported in part by the sustained growth in deposits since 2017, and the rapid growth recorded in 2019. From 12.7 percent in 2017, deposits growth moved up to 17.3 percent and 22.2 percent in 2018 and 2019 respectively, in recognition of the renewed and growing confidence in the banking sector following the reforms.

Another positive outturn from the reforms was repositioning of the banking sector to support economic growth through intermediation. There has been a strong rebound in credit growth since the reforms took effect. Banking sector credit increased to GH¢45.2 billion in December 2019 from GH¢36.5 billion in December 2018. Growth in new advances also recovered strongly to GH¢29.7 billion during 2019 from GH¢23.3 billion in 2018. The growth in credit was broad-based across all the various economic sectors.

An indicator that turned significantly positive was the industry's asset quality measured by the Non-Performing Loans (NPL) ratio. The industry's NPL ratio has declined sharply to 13.9 percent in December 2019 from 17.3 percent in October 2019 on the back of recoveries and write-offs, as well as the strong pickup in total credit. The current NPL ratio of 13.9 percent is the lowest the industry has recorded in at least five years. The industry's stock of NPLs declined by GH¢891.47 million between October 2019 and December 2019 from loan write-offs amounting to GH¢751.51 million during the period while recoveries from the NPL category accounted for the rest. The NPL ratio, excluding the loss category, declined to 6.7 percent from 8.1 percent during the same period.

Overall, the recapitalization and reforms has enhanced the banking industry's resilience as reflected by the realised gains in profitability, soundness, and stability of the sector. Looking ahead, the Bank of Ghana will collaborate further with banks to reduce the stock of NPLs further through intensified loan recoveries. The Bank of Ghana will also continue to engage the banks on how to minimise interest rate spreads further to enhance the monetary policy transmission mechanism.

	BANKS		
	Pre-Recapitalization & Reforms		Post Recapitalization & Reforms
INDICATORS	**Dec-17**	**Dec-18**	**Dec-19**
TOTAL ASSETS (GH¢ million)	**93,627.41**	**105,115.25**	**129,064.65**
.....Annual Growth (%)	*15.3*	*12.3*	***22.8***
Total Deposits (GH¢ million)	**58,209.34**	**68,289.68**	**83,459.78**
.....Annual Growth (%)	*12.7*	*17.3*	***22.2***
Total Advances (GH¢ million)	**37,829.52**	**36,496.87**	**45,170.02**
.....Annual Growth (%)	*6.8*	*-3.5*	***23.8***
Profit after tax (GH¢ million)	**2,133.39**	**2,400.00**	**3,305.48**
.....Annual Growth (%)	*21.7*	*12.5*	***37.7***
Capital Adequacy Ratio (Basel 1.5)	**18.5**	**19.3**	**23.2**
Capital Adequacy Ratio (Basel III)			**17.5**
Non Performing Loans - (%)	**21.6**	**18.2**	**13.9**
...Excl. Loss Category	10.1	10.2	**6.7**
Return On Equity (ROE) -After tax %	**16.6**	**18.2**	**19.9**
Return On Assets (ROA) - Before tax%	**3.3**	**3.3**	**4.1**
Lending Rates (%)	26.2	24.0	**23.6**

ANNEXES

Table 1: Asset and Liability Structure of the Banking Sector

	Dec-16	Dec-17	Dec-18	Oct-19	Dec-19
Components of Assets (% of Total)					
Cash and Due from Banks	27.0	26.0	26.0	23.3	23.9
Investments	27.7	30.5	36.3	39.2	37.5
Net Advances	37.8	33.7	30.3	30.2	31.0
Other Assets	3.9	5.3	3.5	3.7	3.9
Fixed Assets	3.6	4.4	3.9	3.6	3.6
Components of Liabilities and Shareholders' Funds (% of Total)					
Total Deposits	63.8	62.2	65.0	65.2	64.7
Total Borrowings	16.6	18.1	14.1	14.1	15.8
Other Liabilities	6.2	6.6	6.9	6.4	5.9
Shareholders' Funds	13.3	13.1	14.0	14.3	13.6

Table 2: Credit Growth

	Dec-16	Dec-17	Dec-18	Oct-19	Dec-19
Gross Loans and Advances (GH¢m)	35,504.07	37,934.32	36,543.14	41,646.00	45,170.02
Nominal Growth (y-o-y)	17.9	6.3	(3.7)	17.2	23.6
Private Sector Credit (GH¢m)	30,217.70	34,578.98	33,398.41	37,131.72	39,364.91
Nominal Growth (y-o-y)	15.1	14.4	(3.4)	13.1	17.9
Household Loans (GH¢m)	4,750.19	5,941.06	8,359.94	8,476.14	9,409.71
Nominal Growth (y-o-y)	6.1	25.1	40.7	(1.8)	12.6

**** Excludes loans under Receivership***

Table 3: Contingent Liability

	Dec-16	Dec-17	Dec-18	Oct-19	Dec-19
Contingent Liabilities (GH¢)	7,385.9	7,374.6	9,315.5	10,062.0	11,440.4
Growth (y-o-y)	10.8	(0.2)	22.0	18.4	16.2
% of Total Liabilities	13.6	10.3	11.5	11.1	10.3

Table 4: Distribution of Loans and NPLs By Economic Sector (Percent)

	Dec-17		Dec-18		Oct-19		Dec-19	
	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs
a. Public Sector	**8.8**	**5.9**	**8.6**	**2.9**	**10.8**	**2.3**	**12.9**	**3.3**
i. Government	1.3	1.1	3.0	1.0	3.8	0.2	5.3	0.3
ii. Public Institutions	2.4	0.4	1.2	0.3	2.5	0.2	3.0	0.2
iii. Public Enterprises	5.1	4.5	4.4	1.6	4.5	1.8	4.5	2.8
b. Private Sector	**91.2**	**94.1**	**91.4**	**97.1**	**89.2**	**97.7**	**87.1**	**96.7**
i. Private Enterprises	74.0	88.0	66.3	87.0	66.1	84.8	63.8	82.0
o/w Foreign	9.4	8.3	9.9	9.6	9.6	8.6	8.4	8.5
Indigeneous	64.5	79.7	56.4	77.4	56.5	76.2	55.4	73.5
ii. Households	15.7	5.5	22.9	9.4	20.4	8.2	20.8	8.7
iii. Others	1.5	0.6	2.2	0.6	2.7	4.8	2.5	6.0

Table 5: Liquidity Ratios

	Dec-16	Dec-17	Dec-18	Oct-19	Dec-19
Liquid Assets (Core) - (GH¢'million)	22,316.2	24,308.8	27,366.3	28,158.9	30,907.43
Liquid Assets (Broad) -(GH¢'million)	44,767.5	52,457.5	65,128.3	75,200.3	78,910.07
Liquid Assets to total deposits (Core)-%	42.4	41.8	40.1	35.7	37.0
Liquid Assets to total deposits (Broad)- %	85.0	90.1	95.4	95.3	94.5
Liquid assets to total assets (Core)- %	27.0	26.0	26.0	23.3	23.9
Liquid assets to total assets (Broad)- %	54.2	56.0	62.0	62.1	61.1

Table 6: Profitability Indicators (%)

	Dec-16	Dec-17	Dec-18	Dec-19
Gross Yield	27.1	21.2	15.5	17.9
Interest Payable	12.1	9.2	5.9	6.1
Spread	15.0	12.0	9.6	11.8
Asset Utilisation	17.5	16.7	14.7	13.7
Interest Margin to Total Assets	8.2	7.9	7.1	7.2
Interest Margin to Gross income	46.9	47.4	48.7	52.4
Profitability Ratio	12.1	13.7	15.6	18.7
Return On Equity (%) after tax	17.6	18.7	18.5	19.9
Return On Assets (%) before tax	3.8	3.6	3.3	4.1

Table 7: DMBs' Income Statement Highlights

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-17	Dec-18	Dec-19
	(GH ¢'million)				Y-on-y Growth (%)		
Interest Income	12,200.2	13,037.6	12,130.4	14,049.3	6.9	(7.0)	15.8
Interest Expenses	(5,429.7)	(5,646.6)	(4,631.5)	(4,783.1)	4.0	(18.0)	3.3
Net Interest Income	**6,770.5**	**7,391.0**	**7,498.8**	**9,266.2**	**9.2**	**1.5**	**23.6**
Fees and Commissions (Net)	1,501.9	1,692.1	1,939.8	2,236.7	12.7	14.6	15.3
Other Income	741.8	877.0	1,332.4	1,392.3	18.2	51.9	4.5
Operating Income	9,014.2	9,960.1	10,771.0	12,895.2	10.5	8.1	19.7
Operating Expenses	(4,855.4)	(5,439.1)	(5,771.5)	(6,411.7)	12.0	6.1	11.1
Staff Cost (deduct)	(2,536.2)	(2,736.1)	(3,015.9)	(3,457.8)	7.9	10.2	14.7
Other operating Expenses	(2,319.2)	(2,703.0)	(2,755.7)	(2,953.9)	16.6	1.9	7.2
Net Operating Income	**4,158.8**	**4,521.0**	**4,999.5**	**6,483.5**	**8.7**	**10.6**	**29.7**
Total Provision (Loan losses, Depreciation & others)	(1,525.4)	(1,336.7)	(1,398.0)	(1,716.0)	(12.4)	4.6	22.7
Income Before Tax	**2,633.4**	**3,184.3**	**3,601.5**	**4,767.5**	**20.9**	**13.1**	**32.4**
Tax	(880.7)	(1,050.9)	(1,201.5)	(1,462.0)	19.3	14.3	21.7
Net Income	**1,752.7**	**2,133.4**	**2,400.0**	**3,305.5**	**21.7**	**12.5**	**37.7**
Gross Income	14,443.9	15,606.7	15,402.5	17,678.3	8.1	(1.3)	14.8

Table 8: Developments in Offshore Balances

	Dec-16	Dec-17	Dec-18	Oct-19	Dec-19
Offshore balances as % to Networth	61.7	59.9	55.5	50.9	55.3
Annual Growth in Offshore balances (%)	37.9	8.5	10.8	-9.0	19.2
Annual Growth in Nostro Balances (%)	20.2	-9.0	0.0	7.0	61.4
Annual Growth in Placement (%)	75.0	33.4	21.4	-21.8	-14.3