Financial Stability Review

2022

Theme: Managing Financial Stability Risks in the Midst of a Difficult Macroeconomic Environment and Domestic Debt Exchange Programme

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2022

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Preface

The Financial Stability Review assesses developments in Ghana's financial system with a focus on policies implemented to mitigate emerging risks to financial stability. This report is segmented into eight chapters and highlights the broader macro-financial developments; developments in the four broad sectors of the financial system, namely, the banking, insurance, pensions and securities sectors; the level of interconnectedness among the sectors; the resilience of the financial sector and the special feature section which highlights a topical issues of relevance to financial stability.

The publication of this report aims to promote market transparency and public awareness on the state of the financial system and policies implemented to safeguard financial stability in Ghana.

The Financial Stability Review is a collaborative effort of the Bank of Ghana, Ministry of Finance, National Insurance Commission, Securities and Exchange Commission, National Pensions Regulatory Authority, Ghana Deposit Protection Corporation and the Financial Intelligence Center.

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Table of Contents

Preface V
Abbreviations VIII
Foreword X
The Financial Stability Council XII
Executive Summary XV

01

Macro-Financial Developments 1
- 1.1 Global Macroeconomic Developments 1
- 1.2 Developments In Global Financial Stability Risks 2
- 1.3 Developments In Sub-Saharan Africa 4
- 1.4 Developments In Africa's Financial Stabiliity Risks 5
- 1.5 Domestic Macroeconomic Developments 5
- 1.6 Developments in Domestic Financial Stability Risks 9

02

Developments in Ghana's Financial System 10
- 2.1 The Financial System in Ghana 10
- 2.2 Interconnectedness of the Financial System 11

03

Assessment of the Banking Industry 14
- 3.1 Performance of the Banking Industry 14
- 3.2 Regulatory Developments 17
- 3.3 Emerging Risks and Mitigating Measures 18

04

Assessment of the Insurance Industry 21
- 4.1 Performance of the Insurance Industry 21
- 4.2 Regulatory Developments 22
- 4.3 Emerging Risks and Mitigating Measures 23

05

Assessment of the Securities Industry 25
- 5.1 Performance of the Securities Industry 25
- 5.2 Regulatory Developments 28
- 5.3 Emerging Risks and Mitigating Measures 30

PUBLIC

06

Assessment of the Pensions Industry 31
- 6.1 Performance of the Pensions Industry 31
- 6.2 Regulatory Developments 31
- 6.3 Emerging Risks and Mitigating Measures 32

07

Assessment of the Resilience of the Financial Sector 34
- 7.1 Stress Tests of the Banking Industry 34
- 7.2 Assessment of Capital Market Resilience 35

08

Special Features 37
- 8.1 Strengthening AML/CFT & P Supervision in Financial Technology Companies 37
- 8.2 Dealing with Moral Hazard in Deposit Insurance Practice 38
- 8.3 Promoting Responsible Lending Through an Effective Collateral Registry 41
- 8.4 Fostering Regional Cooperation on Financial Stability Issues 42

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Abbreviations

AEO	African Economic Outlook
AIs	Accountable Institutions
AML	Anti-Money Laundering
AUM	Assets Under Management
BCP	Business Continuity Plan
BMA	Business Model Analysis
BNSSS	Basic National Social Security Scheme
BoG	Bank of Ghana
BSSI	Banking Sector Soundness Index
CAR	Capital Adequacy Ratio
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
CGDD	Corporate Governance Disclosure Directive
COCLAB	Committee for Cooperation between Law Enforcement Agencies And Banking Community
CPI	Consumer Price Index
CSE	Crisis Simulation Exercise
DDEP	Domestic Debt Exchange Programme
DFIs	Development Finance Institutions
ELA	Emergency Liquidity Assistance
EMDEs	Emerging Market and Developing Economies
FATF	Financial Action Task Force
FIs	Financial Institutions
FIC	Financial Intelligence Centre
FICSOC	Financial Industry Command Security Operations Centre
FMC	Fund Management Companies
FSC	Financial Stability Council
FSD	Financial Sector Deepening
FSIs	Financial Soundness Indicators
FSSS	Financial Sector Strengthening Strategy
GCX	Ghana Commodities Exchange
GDP	Gross Domestic Product
GDPC	Ghana Deposit Protection Corporation
GFSF	Ghana Financial Stability Fund
GFSR	Global Financial Stability Report
GIZ	Geselleschaft fur Internationalle Zusamenarbeit (German Agency for International Co-operation)
GoG	Government of Ghana
GSE	Ghana Stock Exchange
GSE-CI	Ghana Stock Exchange Composite Index
GSE-FSI	Ghana Stock Exchange Financial Stock Index
IMF	International Monetary Fund
LEAs	Law Enforcement Agencies
LECOB	Law Enforcement Committee of Banks
LI	Legislative Instrument
MAID	Marine Insurance Database
MID	Motor Insurance Database
MCR	Minimum Capital Requirement

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ML/FT	Money Laundering /Terrorism Financing
MOF	Ministry of Finance
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MT	Metric Ton
NBFIs	Non-Bank Financial Institutions
NIC	National Insurance Commission
NGFS	Network for Greening the Financial System
NPLs	Non-Performing Loans
NPOs	Non-Profit Organisations
NPRA	National Pensions Regulatory Authority
OLEM	Other Loans Especially Mentioned
PEP	Politically Exposed Person
QR	Quick Response
RCG	Regional Consultative Group
ROA	Return on Assets
REIT	Real Estate Investment Trust
ROE	Return on Equity
SBFN	Sustainable Banking and Financial Network
SDIs	Specialised Deposit-Taking Institutions
SEC	Securities and Exchange Commission
SIGA	State Interest and Governance Authority
SOEs	State Owned Enterprises
SPV	Special Purpose Vehicle
SSA	Sub-Saharan Africa
SVB	Silicon Valley Bank
WEO	World Economic Outlook
WGs	Working Groups

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Foreword

The reference period of this edition of the Financial Stability Review (FSR) coincided with heightened macro-financial risks, arising from a challenging macroeconomic environment and the effects of the Domestic Debt Exchange Programme (DDEP) on the financial sector.

According to the IMF's Global Financial Stability Report (GFSR, 2023), global financial stability risks were heightened in 2022, reflecting the crystallization of downside risks such as lower-than-expected slowdown in China, and spill-overs from the Russian-Ukraine war amid higher inflationary pressures. These developments led to disorderly tightening of financial conditions and increased financial vulnerabilities which made financial markets more volatile with a squeeze on market liquidity across some key asset classes. Further, global financial stability risks have remained heightened in the first half of 2023. The failures of Silicon Valley Bank (SVB) and the Signature Bank of New York in the United States, and the near collapse of Credit Suisse (a global systemically important bank), reflected the challenges posed by the interaction of tighter monetary conditions and built-up in macroeconomic vulnerabilities and how financial risks can be transmitted across markets and regions.

In Africa, the African Economic Outlook (AEO, 2023) notes that the tight global financial conditions, the lingering effects of COVID-19, and the ramifications of the Russian-Ukraine war, stimulated the lower than expected average GDP growth. In the context of pre-existing vulnerabilities, the higher inflationary environment since 2022, limiting fiscal capacity and rising debt levels posed significant macro-financial and financial stability risks. Minimising risks to financial stability would depend on stronger commitments of fiscal and monetary authorities to implement reforms. The focus of reforms should prioritize increasing domestic revenue mobilization, driving up industrialization to diversify economies, intensifying regional trade to insulate the region against unforeseen global economic shocks, enforcing fiscal discipline and embarking on favourable debt restructuring.

Domestically, macro-economic vulnerabilities deepened. This was occasioned by the fallout from the pandemic, the Russian-Ukraine conflict, and loss of access to the international capital market amid sovereign downgrades which resulted in the government reaching out to the IMF for a bail-out programme in July 2022. An IMF Staff Level Agreement was reached in December 2022 for a US$3.0 billion Extended Credit Facility (ECF), which was subsequently approved by the IMF Board in May 2023. Consequently, the government activated the DDEP to return debt to sustainable levels.

Monetary policy stance has remained tightened to bring down inflation within the target band. Inflation has remained elevated since June-2022, and although it peaked in December-2022, it has only recorded marginal declines as at June-2023. The high level of holdings of government bonds by the financial sector, marked-to-market losses, and derecognition losses from the DDEP adversely contributed to stresses in the financial sector. However, policy coordination and regulatory reliefs by financial sector regulators helped to moderate financial stability risks from the DDEP.

In view of the capital gaps from the impact of the DDEP, banks and other regulated financial institutions have been directed to submit recapitalisation plans. The Ghana Financial Stability Fund (GFSF), being

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established by Government, is also expected to cushion the impact of DDEP on institutions and facilitate a healthy recovery. For banks, prudential unaudited returns for the half-year 2023 show that banks have returned to profitability. If this trend continues and with capital injection by shareholders, banks should be able to rebuild capital buffers quickly. These developments have characterised the theme of this year's Report, ***Managing Financial Stability Risks in the Midst of a Difficult Macroeconomic Environment and Domestic Debt Exchange Programme.*** In line with trend, we report on financial stability developments during 2022 through to end-June 2023.

In the outlook, the Financial Stability Council (FSC) will continue to work to foster policy coordination among members to facilitate the strengthening of financial stability. The implementation of the Financial Sector Strengthening Strategy (FSSS) recently developed as part of the IMF programme and the establishment of the Ghana Financial Stability Fund (GFSF) by the Government as an additional safety net to cushion the financial sector from the full impact of the DDEP will go a long way in rebuilding a robust financial sector to deal with emerging risks. Financial sector regulators will continue to coordinate policies and also intensify monitoring to ensure that emerging risks are well contained. Given the foregoing, the FSC will prioritise financial sector stability going forward. I, therefore, count on the full support of the FSC members to achieve this objective.

I wish to finally thank all Council members, the Technical Committee members and the Working Group members for their dedicated support during these difficult times. I also take this opportunity to thank the FSC Secretariat for their invaluable support in coordinating the activities of the FSC. I would like to, in particular express my profound gratitude to Dr. Joseph France, Head of the FSC Secretariat for his immense support to the FSC since its establishment. As he proceeds on compulsory retirement, I wish him God's blessings and guidance in the next phase of his endeavour.

Dr. Ernest K. Y. Addison
Chairman of the Council

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The Financial Stability Council

The Financial Stability Council (FSC) comprises Bank of Ghana (BOG), Securities and Exchange Commission (SEC), National Insurance Commission (NIC), National Pensions Regulatory Authority (NPRA), Ministry of Finance (MOF) and Ghana Deposit Protection Corporation (GDPC). It is an inter-institutional consultative coordination body responsible for strengthening and reinforcing the stability of the financial sector.

Structure of the Financial Stability Council

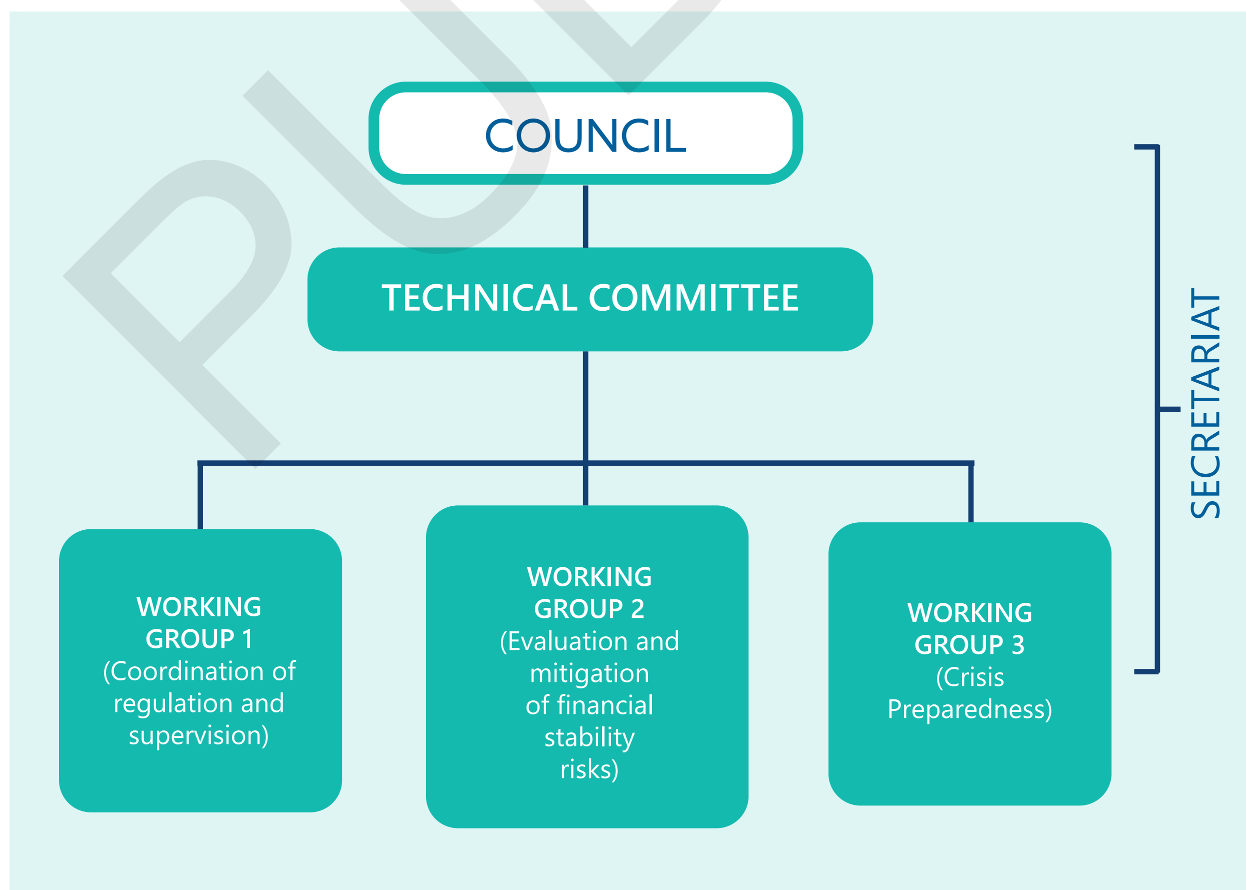
The Financial Stability Council's work programme is centred around three distinct pillars: coordination of regulation and supervision at the micro-level; evaluation and mitigation of financial stability risks at the macro level; and crisis preparedness.

The focus of each pillar is as follows:
The coordination of regulation and supervision at the micro-level pillar focuses on matters of common concern for the various financial regulators involved in the regulation and supervision of financial entities in Ghana (Working Group 1).

The evaluation and mitigation of financial stability risks pillar focuses on the timely detection and mitigation of risks to the stability of Ghana's financial system at the macro level (Working Group 2).

The crisis preparedness pillar focuses on assessing the legal and regulatory framework for resolution, procedures and training on crisis preparedness, and crisis simulation exercises (Working Group 3).

The Working Groups report to the Technical Committee (TC), which coordinates the development of their work programmes, in line with the priorities set by the High-Level Council. The High-level Council comprises the Governor of Bank of Ghana, who is the chairperson, the Deputy Governor of Bank of Ghana in charge of Financial Stability and Banking Supervision, the Minister of State at the Ministry of Finance, the Director General of the Securities and Exchange Commission, the Commissioner of the National Insurance Commission, and the CEOs of the National Pensions and Regulatory Authority and the Ghana Deposit Protection Corporation.



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Members of the Financial Stability Council

Dr. Ernest K. Y. Addison
Governor, BoG (Chairman)

Mrs. Elsie Addo Awadzi
Second Deputy Governor, BOG

Hon. Charles Adu Boahen*
Minister of State, Finance

Rev. Daniel Ogbarmey Tetteh
Director-General, SEC

Dr. Justice Yaw Ofori
Commissioner, NIC

Mr. Hayford Attah Krufi
Chief Executive Officer, NPRA

Mrs. Pearl Esua-Mensah
Chief Executive Officer, GDPC

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* Mr. Charles Adu Boahen exited the FSC in November, 2022

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Mrs. Stella Jonah, NIC
Mr. Seth Nana Amoako, FIC
Ms. Yvonne Botwe, FIC
Mr. Paul Ababio, SEC
Dr. Jacob B. Aidoo, SEC

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Mr. Amartey – Vondee, NPRA
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Dr. Joseph France, BoG
Dr. Settor Amediku, BoG

Mr. Wonder Adetor, MoF
Mr. Andrew Ameckson, MoF
Mr. Ben Tsikudo, MoF
Mr. Emmanuel Asare, GDPC
Mr. Kwesi Attobrah, GDPC

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Mr. Maxwell Anim Frimpong, NIC
Mr. Kwame O. Kissiedu, NPRA
Mr. Prosper Awuni, MoF
Ms. Doreen Asare, BoG
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Mr. Felix Abroquah Besseah, BoG
Mr. Yao Letsa, BoG
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Executive Summary

The global economy experienced a broad-based output decline, recording growth of 3.4 per cent in 2022, much lower than the post-COVID growth rebound of 6.1 per cent achieved in 2021. This was due to continued supply-chain disruptions and heightened geopolitical tensions. Increased volatility in commodity prices, rising inflation, and tightening financial conditions also contributed to the fractured global growth. While first half 2023 shows signs of stability, the outlook is shrouded with uncertainty amid high inflation, tighter financing conditions, financial sector turbulence, weak manufacturing, and ongoing geopolitical tensions.

The domestic economy also witnessed a slower growth of 3.1 per cent, compared to the 5.1 per cent in 2021. Inflationary pressures were high in 2022, with headline inflation surging from 12.6 per cent in December 2021 to 54.1 per cent in December 2022 due to food supply challenges, pass-through effects of currency depreciation, high ex-pump petroleum prices, and upward adjustments in transport fares, among others. To restore debt sustainability, the Government announced the DDEP in December 2022 and implemented it in February 2023.

The holding of domestic debt by the financial sector (banking, insurance and securities) was quite significant and so the effect of the DDEP on the sector was unsurprisingly huge. The implementation of the DDEP resulted in heavy impairment losses on government securities as per the audited financial statements of financial institutions.

The banking sector recorded a loss position on account of the heavy impairment losses on government bonds. Assets growth of the banking industry was however robust on the back of strong growth in deposits mobilised. The core Financial Soundness Indicators showed that the Capital Adequacy Ratio (CAR) reduced while the Non-Performing Loans (NPL) ratio increased. Liquidity indicators however remained strong, averting concerns of liquidity shortfalls.

The insurance sector also experienced a similar trend as profitability was adversely affected by the impairment losses suffered in 2022. Core insurance business however grew strongly, with gross premiums of the insurance industry increasing by 25 per cent to reach GH¢6.56 billion in 2022. This was on the back of the NIC's digitization agenda which continued to be a catalyst for the growth of premiums in the insurance industry. The sector also recorded an appreciable growth in total assets.

The securities sector also witnessed marked-to-market and impairment losses on its holdings in government bonds which affected solvency and market liquidity. The industry retreated across the equities, debt, and Funds Management segments. These developments were broadly reflective of the macroeconomic conditions, with heightened inflationary pressures and domestic currency depreciation, which had an adverse impact on investor sentiments. The SEC initiated policies to promote a healthy and thriving capital market, introduced measures to mitigate reputational risk to boost investor confidence, as well as initiated the development of a Risk-Based Supervisory framework in 2022 to enhance supervisory oversight. The securities industry has since remained resilient during the first half of 2023, as macroeconomic conditions improved.

The Pensions Industry's Assets Under Management (AUM) recorded a decent growth in the midst of the challenging environment. The 3-Tier Pension Scheme's AUM at the end of December 2022 stood at GH₵46.6 billion, as compared to GH₵39.6 billion recorded in 2021. Thus in 2022, pension funds increased by 17.7 per cent, compared to the 18 per cent growth recorded in 2021. The sustained growth in 2022 is attributable to a rise in contribution inflows resulting from ongoing prosecution of defaulting employers and increased enrolment.

Broadly, the financial system was resilient to risks from the macroeconomic challenges in 2022 as well as navigated emerging risks from the DDEP. Stress tests on the recently announced restructuring of cocoa bills and locally issued US Dollar denominated bonds showed that the financial sector would be able to absorb the restructuring losses as some of these impairment losses were already taken in 2022. Based on the gradual recovery in financial performance in 2023, the financial sector is expected to rebound in 2023-2024 and strengthen within the medium term.

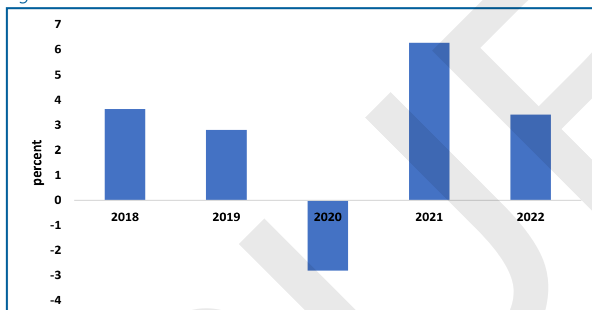
FINANCIAL STABILITY REVIEW 2022 | 1

1 Macro-Financial Developments

1.1 Global Macroeconomic Developments

Global real GDP growth slowed in 2022. After emerging from the pandemic-induced recession of 2020, global real GDP growth in 2022 slowed to 3.4 percent in 2022 from the strong recovery of 6.1 per cent experienced in 2021. This was on account of the lingering effects of COVID-19 on supply-side disruptions, including new COVID-19 outbreaks in China as well as the effects of the Russian-Ukraine war[1]. Also, monetary policies were tightened in response to rising inflation induced by the policy easing at the height of the COVID-19 outbreak and the impact of the Russian-Ukraine war on commodity prices. The Central Banks' policy actions, in line with their mandate of price stability, however contributed to increasing stresses in the financial system and heightening debt vulnerabilities, thereby raising financial stability concerns.

Figure 1.1: Global Growth

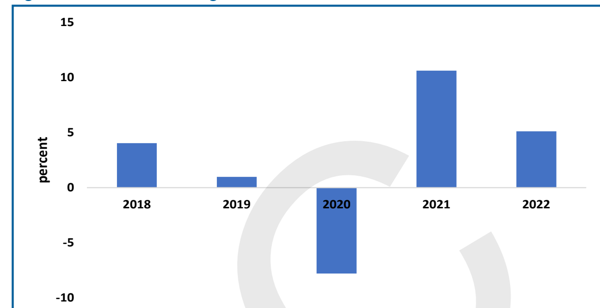


Source: IMF World Economic Outlook, April 2023

In line with global output growth, global trade also slowed in 2022. Global trade growth mirrored the decline in global economic activity in 2022. Despite the moderation in global growth, trade in goods comparatively surpassed pre-pandemic levels in the review year. Trade in services recovered, bolstered by a gradual shift in demand for the services sector. Tourism flows also rebounded as many countries eased restrictions but remained significantly lower than pre-pandemic levels and uneven across regions. In the outlook, increased trade protectionism, network fragmentation, and security concerns about supply chains could raise trade costs and lower growth in global trade in 2023.

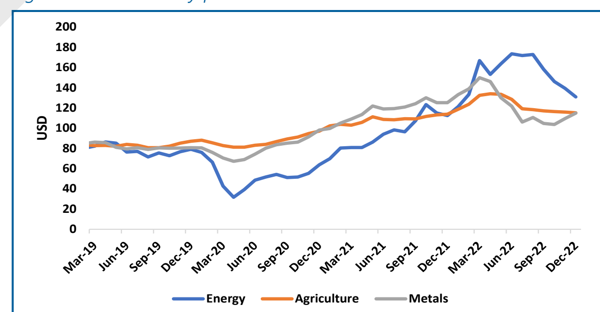
Most commodity prices eased, by varying degrees in the year under review. However, by historical standards, prices remained elevated, worsening the challenges associated with energy and food security. Crude oil price steadily declined from its peak mid-2022, reflecting the slowdown in global growth demand. Natural gas price in Europe, after recording an all-time high in August, dropped in December to levels prior to Russia's invasion of Ukraine. Similarly, non-energy prices, particularly metal prices, fell in tandem given the weak demand. While food prices eased from earlier peaks, food price inflation remained very high in some Emerging Markets and Developing Economies (EMDEs). Currency depreciation in many EMDEs countries resulted in higher commodity prices in local currency terms compared to the price in US dollars.

Figure 1.2: Global trade growth



Source: IMF World Economic Outlook, April 2023

Figure 1.3: Commodity prices



Source: World Bank Global Economic Prospects, January 2023

Inflationary pressures remained high and persistent throughout the review year in almost all economies. The spike in inflation in 2022 were ascribed to a combination of demand and supply-side factors. On the demand side, the initial rebound from the 2020 global recession, as well as the lag effects of previous policy support, contributed to persistent price pressures. The supply-side which also witnessed key commodity shortages, exacerbated by Russia's invasion of Ukraine, contributed significantly to high energy and food prices.

2022 witnessed one of the fastest surges in monetary

[1] *IMF, World Economic Outlook, April 2023*

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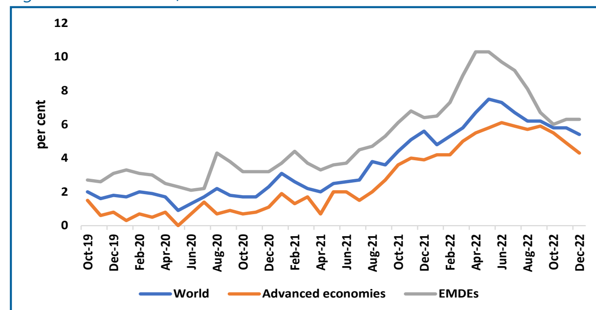
policy rates, following rising inflation, particularly in the EMDEs. Demand pressures, including the lagged effects of prior policy support, and supply shocks, including disruptions to both global supply chains and the availability of essential commodities, have driven global inflation higher than anticipated. Large currency depreciations relative to the US dollar have also fuelled inflation in several countries. To fight inflation and restore confidence in the financial system, major central banks have tightened policy at the fastest possible pace. This has resulted in a significant tightening of the global financial position.

Figure 1.4: Global Inflation

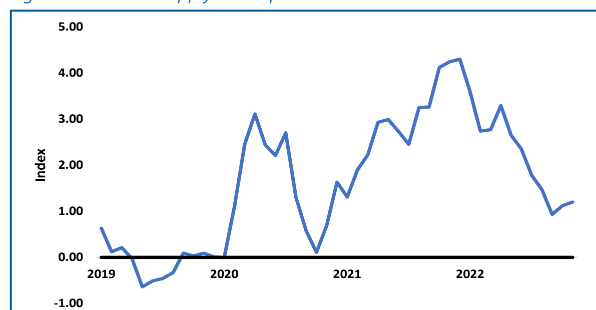


Source: World Bank Global Economic Prospects, January 2023

Pronounced fragilities in the United States, China and the Euro area affected EMDEs. EMDEs, many of which were already battling declining domestic conditions, suffered repercussions emanating from macroeconomic vulnerabilities in United States, China and the Euro area. Weakening investment growth from these three major economies has lasting implications for global trade, output growth and the EMDEs' ability to reach key development and climate-related goals.

Although global supply chain pressures are still above pre-pandemic levels, they have eased since mid-2022. This is reflected in lower transportation costs and normalization of inventories. Supply chain pressures continue to ease and are returning to historical averages owing to rising inventories and falling shipping costs. Notwithstanding, inflation and food insecurity have increased in many of the world's poorest regions because of pandemic related supply disruptions, higher input costs, and shortages, exacerbated in part by Russia's invasion of Ukraine.

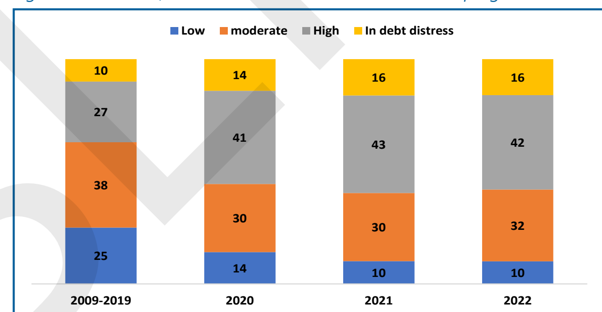
Figure 1.5: Global supply chain pressures Index



Source: World Bank Global Economic Prospects, January 2023

Fiscal space has decreased drastically, and global sovereign debt levels have soared, raising concerns about debt sustainability in many countries. Worsening global financial conditions have made debt servicing even more difficult. As pandemic-related stimulus is phased out, many governments have announced new support measures aimed at safeguarding households and businesses from the effects of sharply rising prices which have slowed fiscal consolidation. About 58 per cent of low-income developing countries are estimated to be either already in debt distress or at high risk of it, and about 25 per cent of emerging market economies are also estimated to be at high risk (see Fig. 1.6). It is important that timely and carefully calibrated medium-term fiscal consolidation framework is developed, with a focus on reducing wasteful spending and ensuring that support for the poor and most vulnerable are well-targeted. Against this background of the challenging and uncertain macroeconomic environment, global GDP growth is projected to decline in 2023 as discussed in box 1.1.

Figure 1.6: Risks of Debt Distress in low-income developing countries



Source: IMF World Economic Outlook, April 2023

1.2 Developments In Global Financial Stability Risks

Global financial stability risks heightened in 2022, reflecting crystallization of downside risks including, worse-than-expected slowdown in China, and spill-overs from the protracted Russian-Ukraine war amidst higher than anticipated inflation (IMF GFSR, 2022). Financial vulnerabilities were also elevated especially in the sovereign and the non-bank financial institutions (NBFI) sector, and market liquidity declined across some key asset classes.

The build-up in vulnerabilities was attributed to the easing of financial conditions by central banks amid the COVID 19-pandemic to stimulate demand. However increased demand and supply-side challenges led to rising inflation in 2022, and in response, policy stance has been to tighten and foster normalization to anchor inflation expectations. In emerging markets, monetary policy tightening has continued to keep pace with the rising inflation and currency pressures, which has been exacerbated by higher interest rates in AEs.

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Box 1.1 - Recent Developments in the Global Economy[2]

Global economic growth is expected to remain positive in 2023, reflecting declining food and energy prices, the re-opening of the Chinese economy, and improvements in business and consumer confidence. However, the IMF's WEO (2023) reports that the outlook is uncertain amid difficult policy trade-off, persistent inflationary pressures, systemic sovereign debt distress in EMDEs, uncertainties stemming from the lingering effects of Russia's conflict with Ukraine, and vulnerabilities in the banking sector. To this end, global growth is projected to decline in 2023 to 2.9 per cent, down from 3.4 per cent in 2022 (IMF, 2023).

Downside risks persist and continue to impede the recovery in economic activity, with the recent instability in the banking sector in the United States and Europe likely to dampen the growth outlook much further. The sudden failures of Silicon Valley Bank (SVB) and the Signature Bank in the United States, and the loss of market confidence in Credit Suisse, a global systemically important bank (G-SIB) in Europe, serve as a reminder of the challenges that arise when tighter monetary conditions interact with build-up in vulnerabilities. Since the global financial crisis, this has been the first incidence of a G-SIB failure (IMF WEO, 2023). Policymakers may continue to face difficult trade-offs between fighting inflation and ensuring financial stability.

Headline inflation is somewhat on a steady decline across Advanced Economies (AEs) and EMDEs, driven by declining energy and food prices, an ease in supply chain bottlenecks and synchronized monetary policy tightening. Global headline inflation is therefore expected to decline from 8.7 percent in 2022 to 7.0 percent in 2023. However, expectations for core inflation in 2023 have been revised upwards partly due to higher wage growth forecasts. Pressures in global energy markets could reappear, leading to renewed price spikes, and higher inflationary pressures.

Rising global debt remains a concern as sovereign debts have reached levels not seen in decades in most economies and remain high. Tightening monetary policy, particularly by AEs, has resulted in substantial increases in borrowing costs, further raising concerns about debt sustainability. Sovereign debt sustainability metrics continue to worsen around the world, especially in EMDEs, with many of the most vulnerable countries already facing severe debt distress.

While the global economy is facing a challenging and uncertain macroeconomic environment, Central banks across the world also have a critical responsibility of managing the balance between containing inflation, preserving financial stability and supporting economic growth. Implementation of credible and well-timed growth friendly fiscal consolidation with debt restructuring options in some cases could help contain debt sustainability concerns and foster inclusive growth.

Interest rates and asset prices remained extremely volatile, on account of uncertainty about the macroeconomic outlook. Equity prices fell sharply, and credit spreads materially widened, as investors aggressively pulled back from risk-taking.

Generally, conditions in global credit markets deteriorated with corporate bond spreads widening in AEs and access to credit becoming more challenging. EMDE companies were also vulnerable as balance sheet leverage rose since the onset of the pandemic. Conditions in local currency bond markets worsened in many emerging and frontier markets, reflecting the uncertain macroeconomic outlook, policy credibility, and deterioration in the fiscal position.

Central banks would need to act resolutely to bring down inflation to target levels and avoid a de-anchoring of inflation expectations. With a challenging macroeconomic and a difficult policy environment, policymakers must find a fine balance between navigating high inflation and tighter financial conditions. Recent developments in global financial stability risks are summarised in Box 1.2.

[2] *Developments in the global economy is based on the IMF World Economic Outlook, April 2023 and World Bank Global Economic prospects, June 2023*

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Box 1.2 - Recent Developments in Global Financial Stability Risks - 2023

Global financial stability risks remain heightened in 2023 (IMF GFSR, 2023). The recent banking turmoil in the United States and Switzerland reflected challenges of tighter monetary conditions and built-up in macroeconomic vulnerabilities. The swift acquisition by UBS of Credit Suisse in March 2023 also underscores the importance of regulatory interventions to restore market confidence. These isolated events in the US and Switzerland which quickly spread to financial markets globally, leading to a sharp repricing of interest rate expectations, underscore how risks can be transmitted from one region to others.

A fundamental question for market participants and policymakers is whether these recent events are a sign of more systemic stresses that will test the resilience of the global financial system, or simply an isolated manifestation of challenges from tighter monetary and financial conditions. While bank regulators in these countries have taken decisive steps to restore confidence in the banking sector, market sentiment remains fragile, and strains are still evident across several institutions and markets.

Investor fears about losses on interest rate-sensitive assets across AEs have resulted in widespread sell-offs, especially in banks that trade at significant discounts to their book values and have persistent problems with profitability and ability to raise capital. Challenges faced by banks in AEs however appear not to have affected banks in emerging markets. Emerging market banks rely less on short-term debt and non-interest-bearing deposits, and have a lower share of marked-to-market securities, hence, they are significantly insulated from such interest rate risks. Emerging economies typically have assets with lower credit quality, indicating that they are more vulnerable to asset quality risks and deterioration in banking sector confidence.

International debt issuance is yet to recover from the low levels of 2022 and could face a difficult year if tighter financial conditions persist. Sovereign spreads especially in frontier economies have widened to crisis levels following the recent turbulence; and it is more worrisome for economies with lower credit ratings. Low-income countries, adversely affected by high food and energy prices, have extremely challenging debt situations, with more than half at high risk of debt distress or worse.

Going forward, policymakers and market participants would need to assess if these stability risks are systemic or isolated. Although the global financial system is generally more resilient, concerns remain about vulnerabilities at both banks and non-bank financial intermediaries (NBFIs). As central banks continue to fight inflation, adequate tools should be in place to address financial stability risks. The need to act swiftly to prevent any systemic events that may adversely affect market confidence in the resilience of the global financial system should be paramount.

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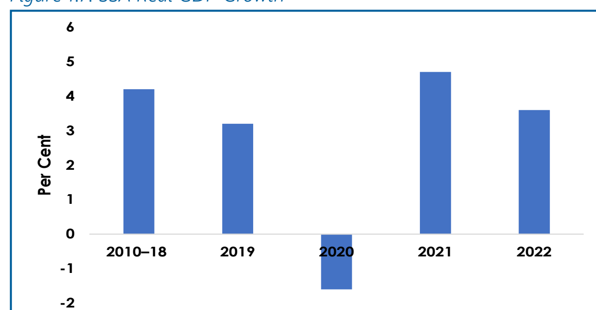
1.3 Developments In Sub-Saharan Africa

Growth in the Sub-Saharan Africa (SSA) region declined to 3.8 per cent in 2022 from 4.8 per cent in 2021. The decline is attributed to tight global financial conditions and reduced demand by external trade partners in the context of high inflation. The region's growth outlook may be adversely impacted by major economies grappling with high interest rates, rising and persistent inflationary pressures, climate change, and deteriorating debt sustainability concerns.

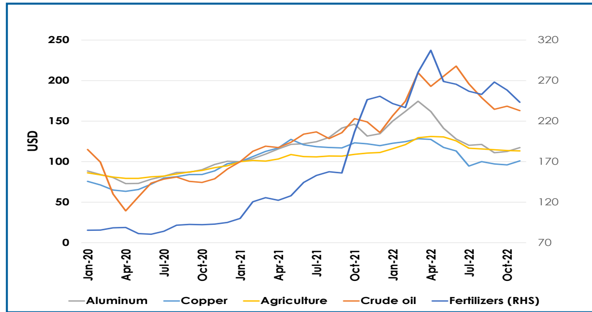
Figure 1.7: SSA Real GDP Growth



IMF SSA Regional Economic Outlook, April 2023

Growth projections for 2023 have been revised downwards to reflect subdued economic activities amid decline in consumer demand and sharp increases in cost-of-living, amplified by other vulnerabilities, such as unfavourable weather conditions, rising debt, and insecurity (AfDB AEO, 2023). These may further affect commodity prices. Declining import prices of key commodities in diversified economies are, expected to positively impact market activities in the services and agriculture sectors. Wheat prices which nearly doubled due to the Russia-Ukraine war returned to pre-war levels after both countries signed an agreement to allow grain exports from Ukrainian ports.

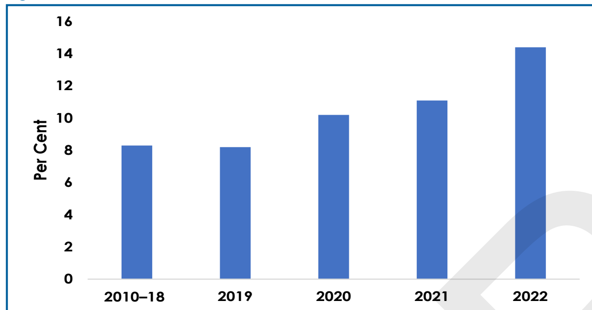
Figure 1.8: SSA Commodity Prices



Source: World Bank Global Economic Prospects, January 2023

Headline inflation level inched up to 14.2 per cent in 2022 from 13 per cent in 2021. The high inflation has been attributed to high food prices, heavy reliance on energy imports, pass-through effects of currency depreciation, supply chain bottlenecks and the effects of the Russian- Ukraine war.

Figure 1.9: SSA Inflation



Source: IMF SSA Regional Economic Outlook, April 2023

Fiscal deficit and sovereign debt levels narrowly declined in 2022. Fiscal deficit/GDP for the region was estimated at 4.0 per cent in 2022, from an estimated 4.9 per cent in 2021 due to a scale down in pandemic-induced government spending during the review year. Similarly, debt/GDP ratio in Africa dipped marginally from an estimated 68 per cent in 2021 to 65 per cent in 2022. This development has been attributed mainly due to debt relief initiatives in some countries.

Debt levels in SSA have reached levels prior to the pre-Heavily Indebted Poor Countries (HPIC) initiative (AfDB AEO, 2023). Africa's debt levels have steadily increased but the debt composition differs markedly from that of the pre-HIPC era. Low-cost long-term multilateral debt has been replaced with higher-cost shorter term private funds, with resultant high debt-service costs and higher roll-over risks. It is estimated that 19 of the 35 low-income economies in SSA are in debt distress or at high risk of distress.

1.4 Developments In Africa's Financial Stabiliity Risks

In spite of the decline in growth to 3.8 per cent, growth is forecasted to rebound to 4.0 per cent in 2023. This could however be derailed by heightened and persistent inflation, lingering supply chain disruptions and climate and security-related risks.

Large currency depreciation might also weigh on debt levels in Africa. Although depreciation rates are expected to ease in 2023 and 2024 as inflation eases, the tightening of monetary policy by the Federal Reserve could dampen domestic efforts by governments and monetary authorities across the continent.

Debt-GDP ratios are forecasted to remain at high levels, above the pre-pandemic level. Several countries in Africa have lost access to the international capital markets forcing them to resort to raising debt from the domestic market. Domestic debt has therefore been on the ascendency in most countries.

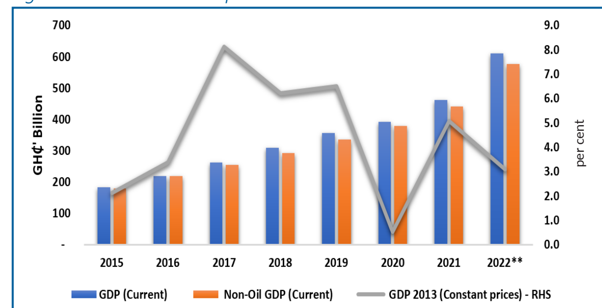
On-going geopolitical tensions and the Russian–Ukraine war if prolonged, could affect economic recovery. Lingering conflicts and political instability risks on the continent could also negatively affect both domestic and foreign investments.

In the outlook, African countries would have to focus on political, economic and financial stability. In this regard, policy reforms such as increasing domestic revenue mobilization, escalating pro-poor investments to encourage financial inclusion, increasing regional trade to strengthen economic security, embarking on debt restructuring and adopting growth enhancing fiscal discipline, should be pursued.

1.5 Domestic Macroeconomic Developments

Domestic growth moderated in 2022 in line with the challenging macro-economic environment. Real GDP growth in 2022 was estimated at 3.1 per cent, lower than the 5.1 per cent recorded in 2021. Non-oil real GDP growth also slowed to 3.8 per cent in 2022, from 6.6 per cent achieved in 2021. Lingering supply-chain constraints, tightened global financing conditions, and rising input costs contributed to this outturn. In terms of sectoral drivers, the agriculture and services sectors grew at 4.2 per cent and 5.5 per cent respectively in

Figure 1.10: Domestic Output



Source: Ghana Statistical Service and Bank of Ghana

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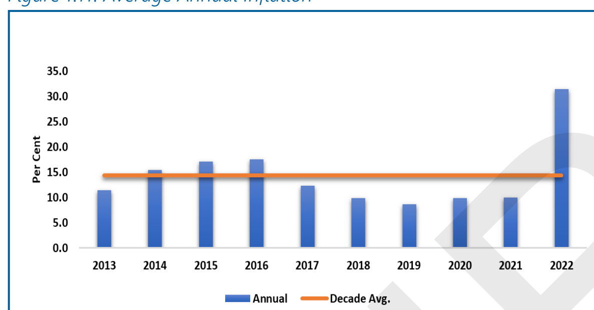
2022, lower than their respective growth of 8.5 per cent and 9.4 per cent in 2021 (GSS, 2023). Industry however rebounded gradually to 0.9 per cent from the -0.5 per cent growth recorded in 2021. The decline in economic growth had negative implications for the performance of the financial sector domestically.

Inflationary pressures were elevated in 2022, reflecting the pass-through effects of currency depreciation, food price hikes, increases in ex-pump petroleum prices and transportation costs. Headline inflation increased from 12.6 per cent in December 2021 to 54.1 per cent in December 2022. Average annual inflation for 2022 was accordingly high at 31.5 per cent.

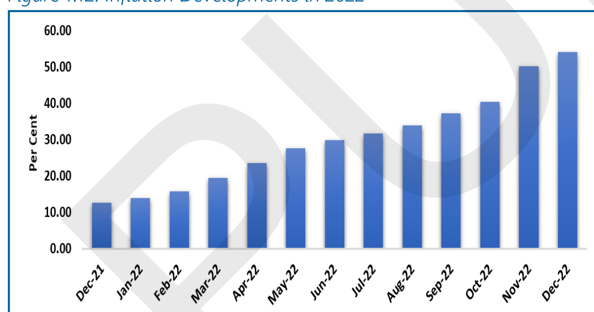
In response to the heightened inflationary pressures, the Monetary Policy Committee (MPC) responded decisively. The Monetary Policy Rate (MPR) was raised cumulatively by 12.50 percentage points (ppts) to 27.0 per cent during the year.

Figure 1.11: Average Annual Inflation



Source: Ghana Statistical Service and Bank of Ghana

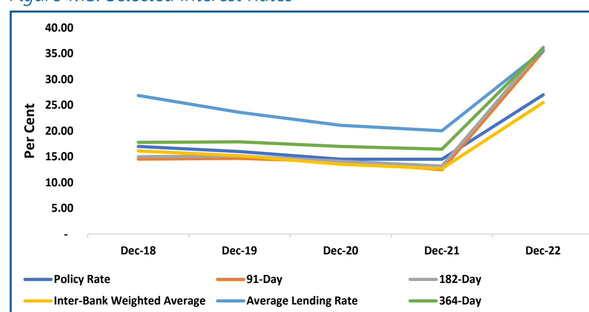
Figure 1.12: Inflation Developments in 2022



Source: Ghana Statistical Service and Bank of Ghana

In line with the rising inflation and tightened monetary stance, interest rates on money market instruments trended upwards across the various maturity profiles in 2022. Rates on the 91-day, 182-day and 364-day Treasury bill increased to 35.48 per cent, 36.23 per cent and 36.06 per cent respectively in 2022 from 12.49 per cent, 13.19 per cent and 16.46 per cent recorded in 2021. The weighted average interbank lending rate also increased from 12.68 per cent in 2021 to 25.51 per cent in 2022. Average lending rate increased to 35.58 per cent in 2022 from 20.04 per cent in 2021.

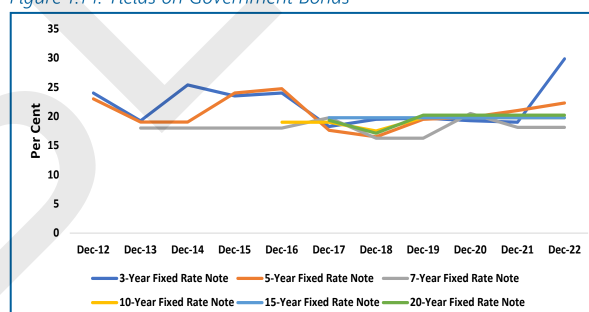
Figure 1.13: Selected Interest Rates



Source: Bank of Ghana

Trends in yields on longer dated government instruments were mixed compared to those on the shorter end of the yield curve. Rates on the 2-year Fixed Note, 3-year, 5-year and 6-year Government of Ghana (GoG) bonds increased to 21.50 per cent, 29.85 per cent, 22.30 per cent and 21.75 percent respectively in 2022. However, rates on the 7-year, 10-year, 15-year and 20-year bonds remained unchanged at 18.1 per cent, 19.75 per cent, 19.75 per cent, and 20.20 per cent respectively over the comparative period due to non-issuance of these instruments within the reference period.

Figure 1.14: Yields on Government Bonds



Source: Bank of Ghana

On the external sector, developments in the commodities market impacted the trade account positively in 2022. The trade balance recorded a higher surplus of US$2.87 billion in 2022, up from a surplus of US$1.1 billion in 2021. The increased trade surplus was attributable to higher exports relative to imports. Total merchandise export was estimated at US$17.49 billion in 2022 on account of higher receipts from crude oil, gold and non-traditional exports. On the other hand, total merchandise imports value was US$14.62 billion in 2022, higher than US$13.63 billion in 2021. The developments in the trade balance improved the current account deficit to US$1.52 billion (2.1 of GDP) in 2022, from the deficit of US$2.54 billion (3.2% of GDP) in 2021.

The overall Balance of Payments (BOP) recorded a higher deficit in the review year, in contrast to the surplus in 2021, despite improvements in the current account. The BOP recorded a deficit of US$3.64 billion

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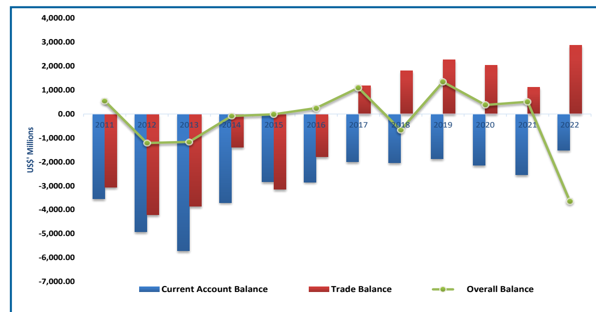
in 2022, compared to a surplus of US$0.51 billion recorded in 2021. The deficit was as a result of large outflows from the financial and capital account.

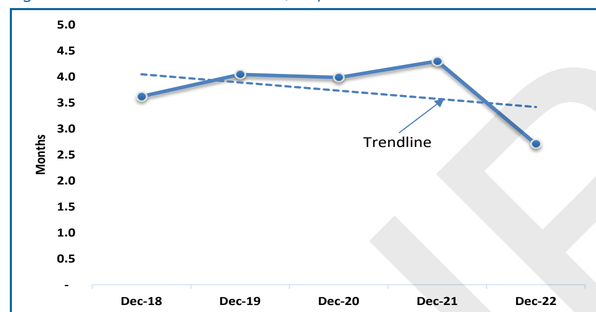
Figure 1.15: Balance of Payment Statistics



Source: Bank of Ghana

Gross International Reserves deteriorated in 2022. The Gross International Reserves (GIR) provided 2.7 months of import cover at end-December 2022, as against the 4.3 months of import cover at end-December 2021. The relatively low reserve position in 2022 weakened the buffer for the local currency.

Figure 1.16: Reserves in Months of Import Cover

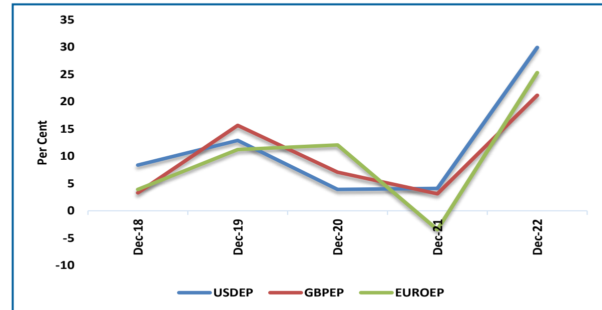


Source: Bank of Ghana

In the foreign exchange market, the local currency weakened sharply against the major international currencies in 2022 than in the prior year. The Ghana Cedi cumulatively depreciated by 29.9 per cent and 21.2 per cent in 2022 against the US Dollar and the British Pound, as against the respective rates of 4.1 per cent and 3.1 per cent during the previous year. Against the Euro, the Ghana Cedi depreciated by 25.3 per cent in 2022, compared to an appreciation of 3.5 per cent in 2021. The strong pressure on the Cedi in 2022 reflected weak inflows of foreign direct investments, portfolio reversals, as well as strong demand pressures. The sharp depreciation of the Ghana Cedi in 2022 was driven by uncertainties about the government's fiscal outlook, resulting from a delay in the approval of key revenue measures in 2022, multiple sovereign downgrades by international rating agencies, portfolio flow reversals, and the lingering effects of the pandemic as well as the Russia-Ukraine war.

The stock of public debt continued to increase in 2022. The stock of public debt rose to GH₵434.60 billion at

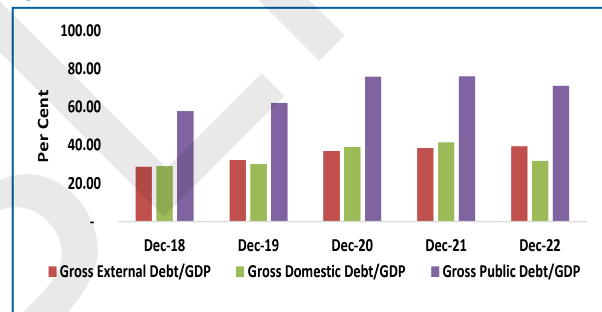
Figure 1.17: Y-o-Y Depreciation Rate (%)



Source: Bank of Ghana Note: + means depreciation

end-December 2022, from GH₵351.80 billion at end-December 2021. However, the ratio of debt-to-GDP improved to 71.2 per cent at end-December 2022 from 80.1 per cent at end-December 2021 reflecting increased domestic output. Of the total debt stock in 2022, domestic debt constituted GH₵194.40 billion (31.6% of GDP), while external debt constituted GH₵240.20 billion (39.1% of GDP).

Figure 1.18: Stock of Public Debt



Source: Ministry of Finance and Bank of Ghana

In summary, macroeconomic developments in 2022 were not favourable to the real sector and the financial sector. Lower real GDP growth, elevated inflation, rising interest rates, sovereign credit downgrades, unsustainable debt levels and dwindling foreign reserves characterised the difficult macroeconomic environment in 2022. The Government of Ghana (GoG) accordingly reached out in July 2022 to the IMF for a bail-out program and in December 2022, a Staff Level Agreement (SLA) was signed between the IMF and the GoG for a US$3.0 billion Enhanced Credit Facility (ECF). A Debt Sustainability Analysis (DSA) conducted in 2022 considered Ghana to be at high risk of debt distress, requiring significant efforts to bring public debt back to sustainable level. To help restore macroeconomic stability and ensure debt sustainability, the GoG announced a Domestic Debt Exchange Programme (DDEP) on 5th December 2022. The details of the DDEP and the participation of the financial sector is elaborated in Box 1.3. It is expected that the recent approval of the IMF's ECF as discussed in Box 1.4 and the roll out of the policies under the Programme would impact positively on the macreconomy.

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Box 1.3 - The Domestic Debt Exchange Programme

The Government of Ghana (GoG) on 5th December 2022, launched the Domestic Debt Exchange Programme (DDEP) as part of measures aimed at restoring debt sustainability and macro-economic stability. The DDEP called for existing bondholders to exchange their existing domestic debt for new debt instruments. The DDEP included all domestic currency bonds issued by the government (including through its special purpose vehicles, Daakye and ESLA).

Following stakeholder engagements on the proposed terms and conditions, a revised memorandum on the DDEP (2nd Amended and Restated Exchange Memorandum) was issued on February 3, 2023. The debt exchange (referred to as Phase I of the DDEP) was implemented and settled on the 10th of February 2023, resulting in the exchange of existing GoG and SOE/SPV bonds for 12 new GoG bonds with reduced coupon rates, and extended maturities, including moratorium on principal repayments.

The financial sector's participation in the exchange included all universal banks, some Specialised Deposit-Taking Institutions (SDIs – namely, Savings and Loans Companies, Finance Houses, Rural and Community Banks and Microfinance Companies). In addition, some insurance companies (life, non-life and re-insurance companies), fund management companies and broker-dealers also participated in the DDEP. This resulted in the financial sector surrendering total bonds of 73.1 per cent of the total bonds restructured under Phase I of the DDEP. Banks accounted for about 58.27 per cent of the total restructured bonds. The Pensions Sector was exempted from the DDEP Phase I, as well as the exclusion of cocoa bills and locally issued US Dollar denominated bonds. These remaining debts are expected to be treated under a phase 2 offer by the end of July 2023.

Stress tests were conducted on the financial sector by the relevant regulators prior to the implementation of the DDEP which showed estimated liquidity and solvency gaps for the financial sector players.

Prior to the implementation of the DDEP, the financial sector regulators provided regulatory reliefs to their respective regulated institutions to help soften potential impacts from the DDEP. These reliefs included the use of flexibilities within existing prudential frameworks to reduce regulatory capital requirements and accommodate capital and liquidity shortfalls, as well as temporary forbearance to allow institutions recapitalise in an orderly fashion. In addition, the regulators worked with stakeholders to standardize accounting treatment for the new bonds and continued to work with the government to set up the Ghana Financial Stability Fund to act as solvency backstop to financial institutions.

As anticipated from prior stress test conducted by financial sector regulators, the DDEP has adversely affected the financial sector with significant solvency shortfalls for some banks, insurers, etcetera as a result of impairment losses suffered from audited financial statements. Possible liquidity shortfalls are also likely to show up, given liquidity risks associated with reduced coupons and longer maturities on the new GoG bonds issued to participating financial institutions.

Accordingly, the financial sector regulators have worked closely with the Ministry of Finance in the first half of 2023 to develop a Financial Sector Strengthening Strategy (FSSS) aimed at rebuilding financial institutions' buffers, exit from temporary regulatory forbearance measures and ensure strengthening financial stability. The Financial Stability Council (FSC) will continue to closely monitor the impacts of the DDEP on financial institutions and on the financial system as a whole, including ensuring the effectiveness of the measures outlined above to mitigate the impact of the DDEP on the financial sector.

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Box 1.4 - Recent Update on Domestic Macroeconomic Developments

Headline inflation declined marginally from 54.1 per cent in December 2022 to 42.5 per cent in June 2022, but still significantly above the medium-term target band of 8±2 per cent. The MPC accordingly tightened further by raising the MPR to 29.5 per cent in March 2023 and to 30.0 per cent in July 2023.

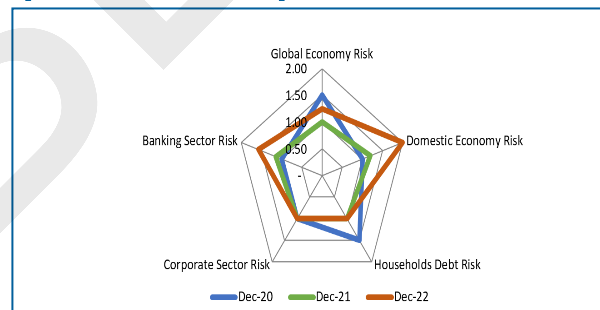
In addition to the monetary policy tightening, the Bank raised the Cash Reserve Ratio on domestic currency deposits for banks from 12 per cent to 14 per cent in April 2023, while augmenting liquidity management operations to address excess liquidity conditions in the market.

On May 17, 2023, the IMF Executive Board approved a US$3.0 billion Extended Credit Facility for Ghana. This has bolstered recovery efforts in the domestic economy by fortifying efforts aimed at restoring macroeconomic stability and debt sustainability. This development is expected to help restore investor confidence in the domestic economy. Already foreign investor activity in the debt and equity markets have picked up during the first half of 2023 and some stability has been seen in the exchange rate market during the second quarter of 2023.

1.6 Developments In Domestic Financial Stability Risks

Generally, risks to the financial system in Ghana emanating from the macro-economic environment have been elevated in 2022. Based on the COBWEB framework shown in Figure 1.19, risks from the domestic macro-economy, global macroeconomy and the banking sector all increased in 2022, compared to 2021. However, risks from both household and corporate sectors remained unchanged in 2022. The increased risks from the banking sector was on the back of higher lending rates due to the monetary tightening in 2022, reduced capital adequacy ratio, and weak profitability in the sector resulting from marked-to-market losses and impairment losses associated with the DDEP. From the domestic macroeconomic environment, risks increased on the back of weaker growth prospects, high inflation, increased deficits, and growing public debt. The increased risks from the global environment was as a result of slowdown in trading partners' growth and high inflation. The expectation is that the IMF Programme and the supportive fiscal and monetary policies to be rolled out will improve the macroeconomy and reduce financial stability risks going forward.

Figure 1.19: Ghana: Cobweb Diagram, December: 2020-2022



Source: Bank of Ghana

Note: Movement away from the origin indicates heightening risks in the sector.

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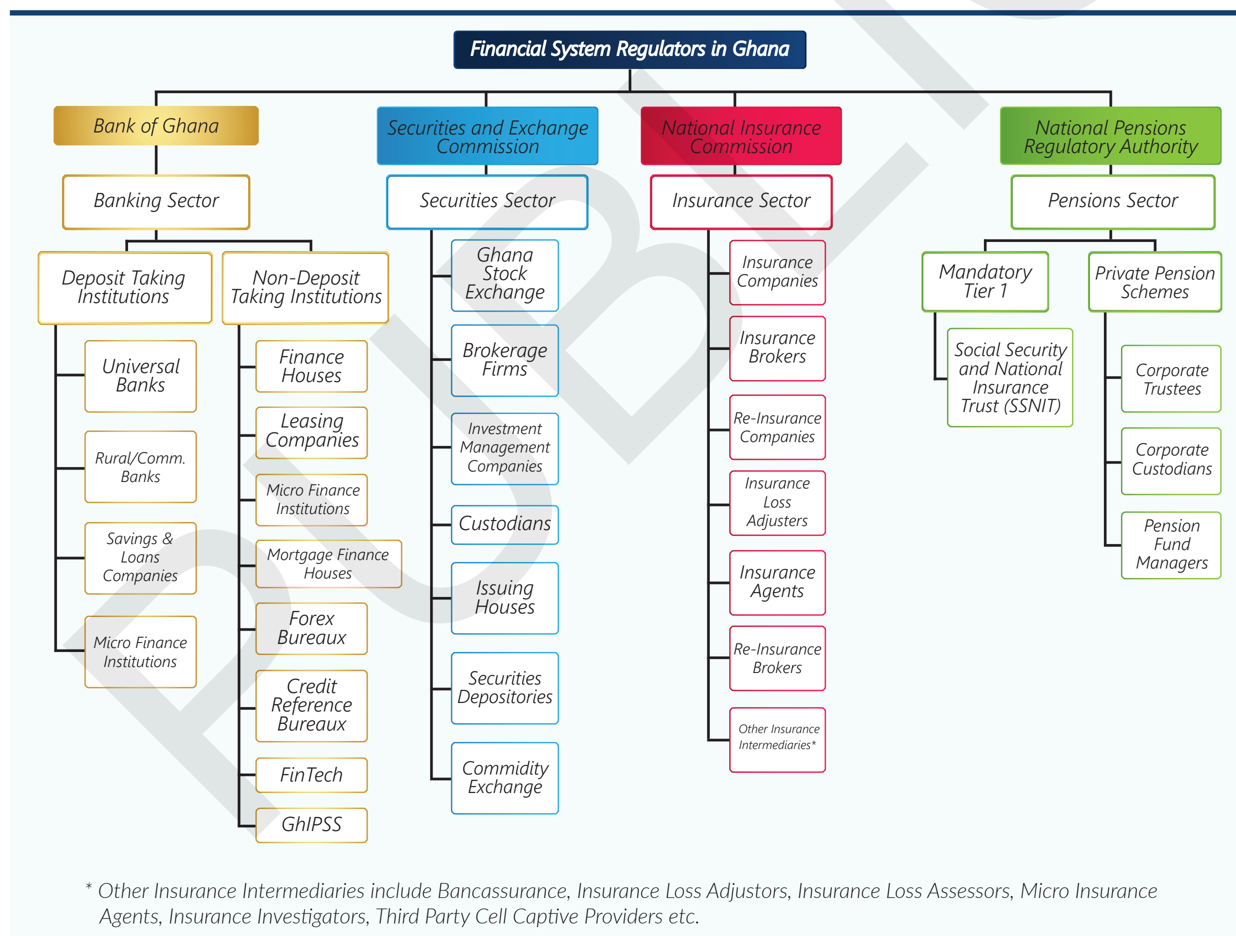
2 Developments in Ghana's Financial System

2.1 The Financial System in Ghana

The financial system of Ghana is regulated and supervised by four distinct regulatory authorities. These regulatory authorities are the Bank of Ghana (BoG), National Pensions Regulatory Authority (NPRA), the Securities and Exchange Commission (SEC) and the National Insurance Commission (NIC). The banking industry is regulated by BoG, while the pensions, securities and insurance industries are regulated by NPRA, SEC, and NIC respectively. The Financial Stability Advisory Council (FSC) made up of these four regulators, the Ministry of Finance and the Ghana Deposit Protection Corporation (GDPC) is responsible for ensuring the safety and soundness of the financial system. Additionally, there are some committees such as the Committee for Cooperation between Law Enforcement Agencies and Banking Community (COCLAB), Regulators Forum for AML/CFT, and the Law Enforcement Committee of Banks (LECOB) used by the relevant authorities to promote and enhance coordination within the financial system.

Figure 2.1: Structure of the financial system in Ghana



Source: Bank of Ghana

Growth in financial system assets remained strong in 2022 in spite of the macroeconomic challenges. Total financial sector assets increased to GH₵312.69 billion at end-December 2022, from GH₵260.43 billion recorded at end-December 2021. With the exception of the securities sector, total assets of all sectors of the financial system increased with the insurance, banking and pensions sectors growing at 22.3 per cent, 21.7 per cent and 19.9 per cent respectively in 2022. However, total assets of the securities sector declined by 2.7 per cent year-on-year. The financial system assets to GDP decreased to 51.2 per cent at end-December 2022, from 56.4 per cent in 2021. The decrease in the financial system assets to GDP mainly reflected

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Table 2.1: Assets of the Ghanaian Financial System

INDICATORS	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22[3]
Banking Industry						
Total Assets (GH₵' M)	110,718	123,751	142,903	163,871	196,151	238,716
Growth Rate (%)	17.0	11.8	15.5	14.7	19.7	21.7
Asset/GDP (%)	43.1	41.2	40.1	41.8	42.5	39.1
Share of Financial Sector Assets (%)	69.2	73.5	76.8	76.8	75.3	76.5
Securities Sector						
Total Assets Under Management- GH₵' M (excluding Pension Funds)	23,854	16,978	10,371	8,322	14,767	14,367
Growth Rate-Assets Under Management % (excluding Pension Funds)	51.59	(28.83)	(38.92)	(19.76)	77.44	(2.71)
Total Assets Under Management- GH₵' M (including Pension Funds)	31,062	25,571	26,249	30,584	44,487	49,498
Total Assets/GDP (%) (excluding Pension Funds)	9.3	5.5	2.9	2.1	3.2	2.4
Share of Financial System Assets (%)	14.9	10.1	5.6	3.9	5.7	4.6
Insurance Sector						
Total Assets (GH₵' M)	4,653	5,490	6,540	7,693	9,951	12,236
o/w Life Insurance	2,842	3,155	3,822	4,521	5,807	6,693
Growth Rate of total assets (%)	26.9	18.0	19.1	17.6	29.3	23.0
Assets/GDP (%)	1.8	1.8	1.9	2.0	2.2	2.0
Share of Financial Sector Assets (%)	2.9	3.3	3.5	3.6	3.8	3.9
Pensions Sector						
Total Assets (GH₵' M)	20,769	22,201	26,295	33,460	39,563	46,611
o/w Public Pension Fund	9,771	9,188	8,932	11,440	11,544	12,106
Growth Rate of Total Assets (%)	32.4	6.9	18.4	27.2	18.2	17.8
Total Assets/GDP (%)	8.1	7.4	7.5	8.5	8.6	7.6
Share of Financial System Assets (%)	13.0	13.2	14.1	15.7	15.2	14.9
Financial System						
Total Assets (GH₵' M)	159,995	168,420	186,109	213,346	260,432	311,930
Growth Rate (%)	23.3	5.3	10.5	14.6	22.1	19.8
Total Assets/GDP (%)	62.3	54.6	52.2	54.4	56.4	51.1

Source: Bank of Ghana, Securities and Exchange Commission, National Insurance Commission, National Pensions Regulatory Authority

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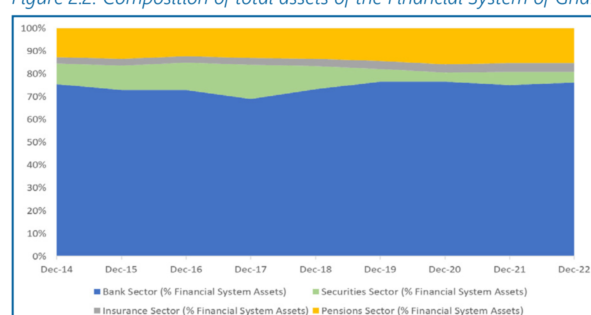
marked-to-market losses in holdings of government bonds arising from the DDEP resulting in a relatively lower growth in financial system total assets in 2022.

The banking sector continues to dominate the financial system in terms of assets. The banking sector assets accounted for 76.5 per cent of the total financial system asset size at end-December 2022. The share of the pensions sector assets has increased steadily since 2014 driven mainly by significant growth in the private pensions fund. The share of the insurance sector to total financial system assets has fairly been stable compared to the other sectors. The contribution of the security sector to financial system assets has declined from levels observed in 2017. This is mainly due to the ban on illegal issuance of guaranteed investment products by fund managers, the clean-up exercise in the sector and increases in redemptions by customers within the securities sector.

Figure 2.2: Composition of total assets of the Financial System of Ghana



Source: Bank of Ghana

2.2 Interconnectedness of the Financial System

Financial sector regulators monitor the interlinkages embedded in the financial system to identify distress that can be systemic in nature. A key characteristic of a developed financial system is the level of interconnectedness within and across the various

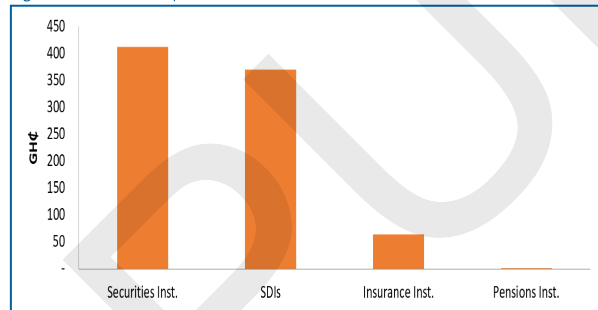
[3] 2022 Figures to be confirmed by EAG whether they are based on audited or prudential (unaudited) numbers.

sectors of the financial system as it enhances the flow of funds in an economy. Also, interconnectedness of financial institutions provides means of diversifying risk and sharing of technological infrastructures among financial agents. However, the level of interconnectedness serves as a means of propagating stress within and across sectors in the financial system. Lessons from the Global Financial Crisis in 2008 confirmed that the interlinkages embedded in the financial system could amplify systemic risk (contagion risk). Accordingly, financial sector regulators have intensified the monitoring of interlinkages in the financial system to provide insights on the degree of concentration and sources of distress that can be of contagion effect.

2.2.1 Exposure of banks to other financial institutions

Total exposures of banks to the other financial institutions was approximately GH₵847.11 million at end-December 2022. Banks were exposed to the other financial institutions mainly in the form of placements and credit facilities (loans and overdrafts). As at end-December 2022, banks were exposed to securities institutions (GH₵412.02 million), Specialised Deposit-Taking Institutions (SDIs) (GH₵370.58 million), insurance companies (GH₵64.22 million) and pension institutions (GH₵0.28 million). The distribution of banks' exposure suggests that distress in the securities industry and SDI subsector will have the most adverse impact on banks.

Figure 2.3: Banks exposure to other financial institutions, Dec. 2022

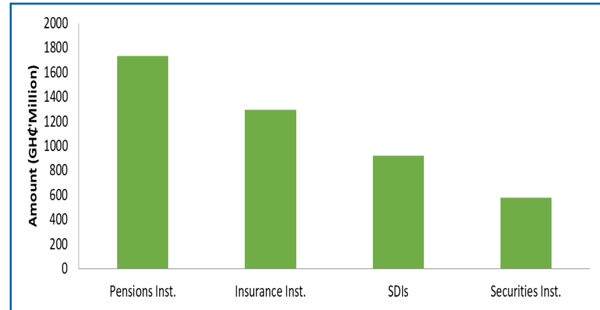


Source: Bank of Ghana

2.2.2 Other financial institutions exposure to banks

Total exposure of the other financial institutions to banks at end-December, 2022 was approximately GH₵4.54 billion. The exposures of other financial institutions to banks were in the form of deposits and investments. Pensions institutions were the most exposed to banks (GH₵1.74 billion), followed by insurance companies (GH₵1.3 billion), SDIs (GH₵926.24 million) and securities institutions (GH₵583.38 million) at end-December 2022. These exposures suggest that distress in banks may adversely impact other financial institutions.

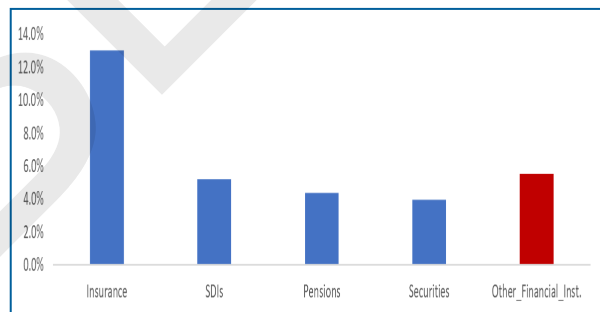
Figure 2.4: Other financial institutions exposure to Banks



Source: Bank of Ghana

Assets of Other Financial Institutions would moderately decline in the events of a major disruption in the banking sector. The level of exposure of the insurance industry to the banks was 13 per cent of the total asset of the insurance industry. This was followed by the Specialized Deposit Taking institutions with 5.2 per cent of their total assets being exposed to the banks. The level of exposure of the Pensions industry to the banks was 4.4 per cent of the total asset of the pensions industry. Also, the securities industry had about 4.0 per cent of its total assets exposed to the banks.

Figure 2.5: Exposure of Other financial Sector to Banks as a proportion of Total Assets

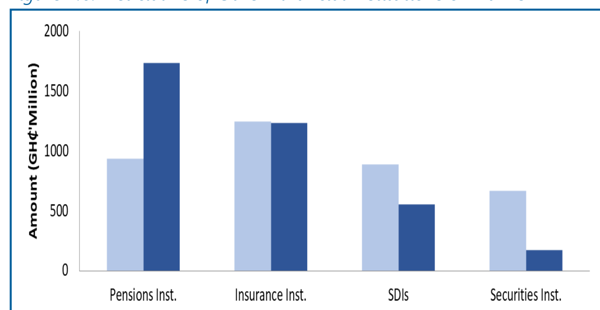


Source: Bank of Ghana

2.2.3 Net claims of other financial institutions on Banks

The exposure of other financial institutions to banks is comparatively higher than banks' exposure to the other financial institutions. On net basis, other financial institutions have an excess of GH₵3.7 billion with the banks as at end-December 2022. The net exposure is disaggregated as follows: pensions' institutions: GH₵1.74 billion; insurance institutions: GH₵1.23 billion; SDIs: GH₵555.66 million; and the securities' institutions: GH₵171.37 million.

Figure 2.6: Net claims of Other Financial Institutions on Banks



Source: Bank of Ghana

During the year, work on the Financial Sector Risk Indicator (FSRI) Data Hub Portal was completed. The Data Hub portal is a platform which stores data on financial risk indicators within the banking, insurance, securities and pensions industry as provided by the Regulatory Institutions. The FSRI portal enables Council members to view at a glance potential risks to the stability of the financial system. The portal went live in December 2022 following training of Council members. Other activities and ongoing initiatives undertaken within the FSC during the year under review are discussed in Box 2.1.

Box 2.1 - Activities of the Financial Stability Advisory Council during the Year

In 2022, the Financial Stability Council's (FSC) and the Technical Committee (TC) each held four quarterly meetings to review developments within the financial sector. The Council and TC deliberated on Working Groups' (WGs) work programmes on the following thematic areas:

1. Framework for the supervision of financial conglomerates: Following WG1's assessment of the pre and post clean-up financial groups, the Council directed WG1 to develop a framework for the supervision of financial conglomerates. The draft framework has been reviewed by the FSC TC and subsequently submitted to the Council for consideration;
2. Assessment of business continuity plans for the financial sector authorities (BoG, FIC, GDPC, NIC, NPRA, MOF, and SEC). To promote the operational resilience in Ghana's financial sector, the FSC tasked WG3 to conduct a baseline study of business continuity practices among financial authorities and financial participants (licensed financial institutions) in Ghana against international best practices; and
3. Emerging risks and interconnectedness risk assessment: WG2 routinely provides the Council with an overview of emerging risks within the financial system, while mapping exposures across financial institutions and groups. This assessment also works to identify leading indicators of crisis in the Ghanaian Financial System;

In addition, based on the assessment of the level of holdings of domestic debt by the financial sector and the potential impact of a debt exchange programme by Government on each financial sub-sector, the Council discussed regulatory reliefs and forbearance measures that could be put in place to cushion the sector from the full impact of the debt exchange.

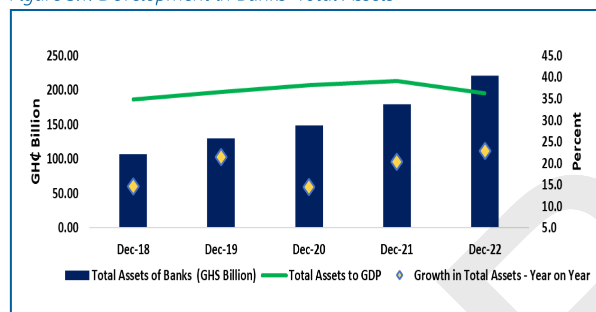
PUBLIC

3 Assessment of the Banking Industry

3.1 Performance of the Banking Industry

Growth in total assets of banks was sustained during the year under review in spite of the macroeconomic challenges in 2022. Total assets of banks grew by 22.9 per cent to GH₵ 220.96 billion at end-December 2022[1] financed mainly by strong growth in deposits. However, banks total assets, as a share of GDP, marginally declined reflecting a relatively slower nominal growth in banks' total assets compared to the nominal growth in GDP.

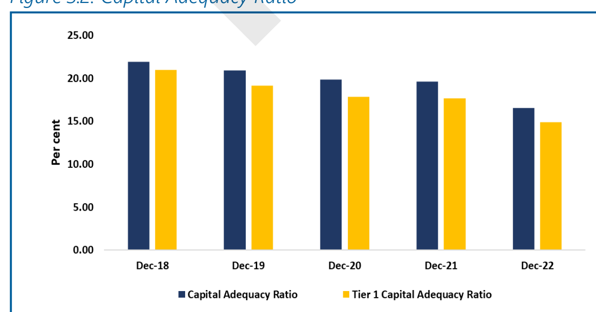
Figure 3.1: Development in Banks' Total Assets



Source: Bank of Ghana

The banking industry remained solvent during the period under review. In December 2022, CAR and Tier 1 CAR stood at 16.6 per cent and 14.9 per cent, from 19.60 per cent and 17.66 per cent recorded in 2021. The ratios were above the minimum regulatory thresholds. The decline during the period reflected marked-to-market losses on investments, and an increase in the risk-weighted assets of banks. However, following the implementation of the DDEP in February 2023, the solvency positions of banks were further impacted by impairment losses and capital shortfalls from the audited financials published by banks as discussed in Box 3.1.

Figure 3.2: Capital Adequacy Ratio

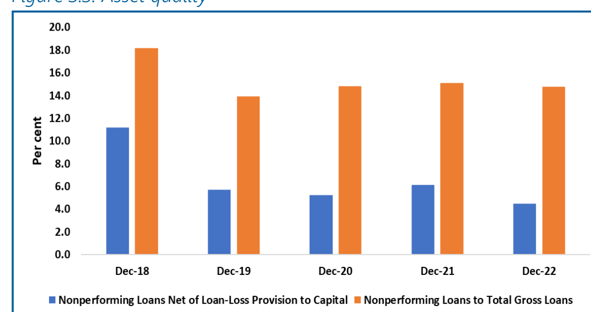


Source: Bank of Ghana

The asset quality of the banking sector improved marginally. The Non-Performing Loans (NPLs) ratio decreased marginally from 15.1 per cent in December 2021 to 14.8 per cent in December 2022. The decline in the NPL ratio reflected a more than proportionate increase in credit growth of 29.8 per cent recorded in 2022. By sector, the decrease in the NPL ratio was primarily due to decreases in NPLs in mining and quarrying, manufacturing, construction, electricity, gas, and water; and transport, storage and communication sectors. The NPL ratios for the various sectors listed above in December 2021, as compared with December 2022 are as follows: mining and quarrying decreased from 9.9 per cent to 4.0 per cent, the construction sector decreased from 35.2 per cent to 29.1 per cent, the electricity, gas, and water sector decreased from 15.4 per cent to 10.6 per cent. Also, the transport, storage and communication sector decreased from 13.7 per cent to 10.5 per cent.,

The capital at risk in relation to possible loan losses reduced in the year under review. The capacity of the banking industry's capital to absorb NPL-related losses decreased slightly during the year. Non-performing loans net of provisions to capital decreased from 6.2 per cent at end-December 2021 to 4.9 per cent at end-December 2022.

Figure 3.3: Asset quality



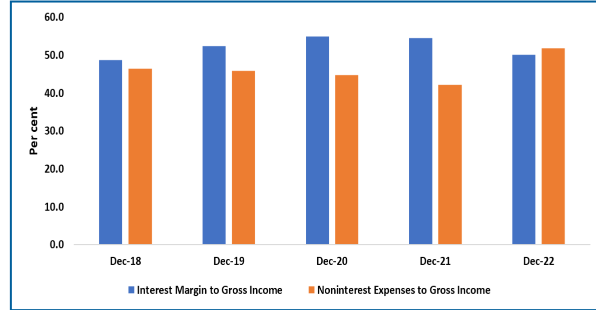
Source: Bank of Ghana

Operational cost increased while interest margin declined. At end-December 2022, interest margin to gross income was 50.1 per cent, as compared to 54.5 per cent the previous year. Similarly, non-interest expenses to gross income increased year-on-year. Non-interest expenses to gross income stood at 51.8 per cent at end-December 2022, from 42.2 per cent in December 2021.

[1] *Based on prudential returns as at December 31, 2022*

PUBLIC

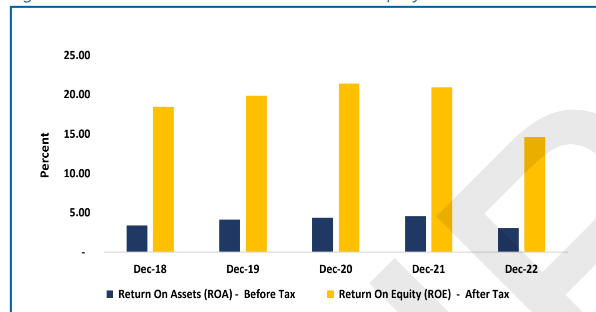
Figure 3.4: Interest Margin and Non-Interest Expenses to Gross Income



Source: Bank of Ghana

The profitability of banks declined in 2022 due to macroeconomic challenges. Profitability levels in the banking sector declined in 2022, driven by the mark-to-market losses on investments, higher impairments on loans, and rising operating costs. Return on equity reduced from 20.9 per cent in December 2021 to 14.6 per cent in December 2022. Return on assets also decreased from 4.6 per cent to 3.1 per cent over the same period.

Figure 3.5: Return on Assets and Return on Equity

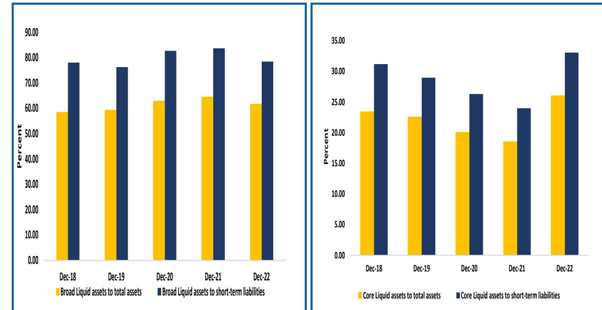


Source: Bank of Ghana

However, as discussed in Box 3.1, the implementation of the DDEP led to impairment losses on government securities affecting further the profitability of the industry from the published financial statements.

The banking industry remained broadly liquid. Broad liquid assets to total assets decreased slightly from 64.61 per cent at end-December 2021 to 61.73 per cent at end-December 2022. Broad liquid assets to short-term liabilities decreased from 83.73 per cent to 78.48 per cent over the period under review. The decline in broad liquidity within the banking industry could be attributed to a reduction in the holdings of long-term instruments by banks during the review period. At end-December 2022, liquidity indicators showed that the banking industry was generally liquid to meet its financial obligations should the need arise.

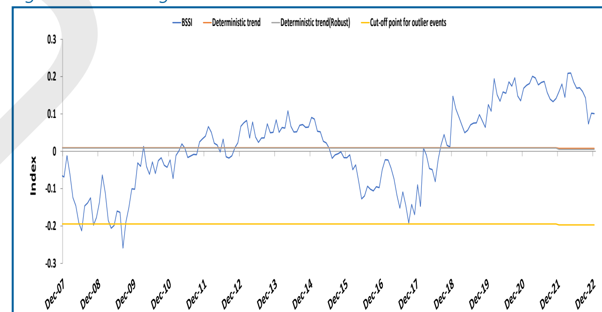
Figure 3.6: Broad and Core Liquidity



Source: Bank of Ghana

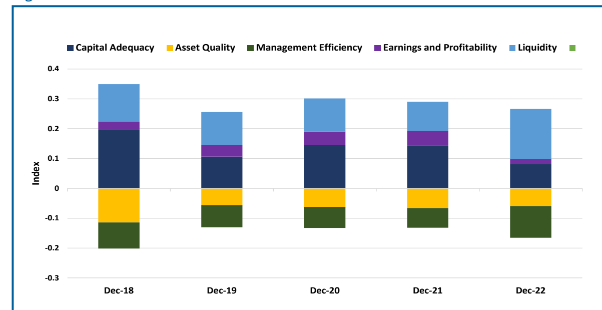
The Banking Sector Soundness Index (BSSI) declined during the year but remained above its long-rum trend. The BSSI, a composite indicator of soundness, is constructed from the Financial Soundness Indicators (FSIs). The decline in the index notwithstanding, it still remained above the long-run trend, signifying general stability in the soundness of the banking sector as at December 2022. The sustained soundness of the banking sector reflected gains from the prudent measures that were employed in the past years. The soundness was sustained, especially with the emergence of the COVID-19 pandemic and previous gains garnered, following the comprehensive set of reforms introduced by the Bank in 2017/2018 to reposition the banking sector to support economic activities and ensure financial stability.

Figure 3.7: Banking Sector Soundness Index[2]



Source: Bank of Ghana

Figure 3.8: Drivers of the BSSI



Source: Bank of Ghana

The FSIs, which is depicted in the form of the Heat Map provides a summary of the performance of the banking industry. At end-December 2022, while a majority of the FSIs were either in their first-best or

[2] The BSSI is developed from the Capital Adequacy Ratio, Asset Quality Ratio, Management Efficiency Ratio, Earning Ratio and Liquidity Ratio. An upward trending BSSI connotes a general improvement in the performance of the banking system

PUBLIC

second-best performing periods, given historical data over the past two decades, others, notably the CAR, NPL ratio and earnings indicators were in the third or fourth best performing periods.

Table 3.1: Heat Map of Core FSIs

CORE FSIs	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Capital Adequacy								
Regulatory capital to risk weighted assets	21.06	20.82	19.89	19.60	21.31	19.35	16.39	16.56
Regulatory Tier I capital to risk-weighted assets	19.33	18.92	17.95	17.66	19.66	17.51	14.46	14.88
Asset Quality								
Nonperforming loans net of loan-loss provision to capital	4.14	7.30	7.48	6.16	6.68	6.98	6.96	4.49
Nonperforming loans to total gross loans	15.49	17.04	16.83	15.12	14.42	14.06	14.05	14.79
Earnings								
Return on assets - before tax	4.70	4.66	4.60	4.57	4.72	4.59	4.50	3.08
Return on equity - after tax	22.48	21.23	21.07	20.91	22.32	21.94	21.91	14.58
Liquidity								
Core Liquid asset to total assets	19.38	19.63	17.23	18.50	19.75	20.83	22.48	26.00
Core Liquid asset to short-term liabilities	25.71	26.15	22.75	23.98	25.64	26.91	29.00	33.06
Core Liquid assets/total deposits	28.41	29.00	25.76	27.48	29.91	31.73	33.40	36.39
Broad Liquid assets to total assets	64.00	65.97	64.82	64.61	63.64	61.24	60.83	61.73
Broad Liquid assets to short-term liabilities	84.92	87.86	85.60	83.73	82.65	79.12	78.50	78.48
Efficiency								
Interest margin to Gross income	56.34	55.57	55.50	54.50	51.91	50.90	50.81	50.07
Noninterest expenses to gross income	42.17	42.11	42.20	42.19	41.37	42.58	40.52	51.80
Personnel Expenses to Gross income	17.61	17.79	17.96	18.06	17.84	17.91	16.23	17.06

1st Best Performing Period | 2nd Best Performing Period | 3rd Best Performing Period | 4th Best Performing Period

Source: Bank of Ghana

Box 3.1 - Recent Developments on the Banking Sector

As noted in Box 1.2, all 23 banks fully participated in the DDEP based on the terms and conditions in the 2nd Amended and Restated Exchange Memorandum issued on February 3, 2023. By virtue of the high levels of holdings of bonds by banks and based on the terms of the restructuring, the level of derecognition losses or impairments on government instruments was understandably huge.

Data from banks' 2022 audited financial statements showed that the industry suffered total impairments on government securities and other GoG-related exposures of GH¢16.3 billion as of end-December 2022, following the launch of the DDEP in December 2022. This was made up of impairments of GH¢12.3 billion on DDEP Phase 1 bonds and impairments of GH¢4.0 billion on other GoG-related exposures of banks including cocoa bills, locally issued USD bonds and Eurobonds, which banks had impaired in the 2022 financial statements. Accordingly, the 2022 audited financial statements of banks showed that the industry posted after-tax loss of GH¢6.6 billion in 2022 reflecting the full impact of the DDEP. The main profitability indicators, namely, return-on-assets and return-on-equity all turned negative in 2022 because of the industry's loss position, with the solvency positions of some banks being below the regulatory threshold.

Banks are expected to submit recapitalisation plans to BoG showing credible plans to rebuild lost capital buffers with a minimum injection of one-third of capital required annually for each of the three years ending in 2025. In addition, to help mitigate the impact of the GoG debt operation on the financial sector, GoG is establishing the Ghana Financial Stability Fund (GFSF) to provide solvency and liquidity support for the financial sector as needed.

PUBLIC

Box 3.1 - Recent Developments on the Banking Sector continued

Prudential data submitted by banks for the first half of 2023 showed that the industry's total assets as at June 2023 was GH¢242.4 billion, showing a year-on-year growth of 21.2 per cent, while total deposits shot up significantly by 42.8 per cent to GH¢187.6 billion in June 2023. The banking sector's profitability assessment also showed a strong rebound in profitability during the first half of 2023 following significant losses incurred at year-end 2022 on account of impairments of holdings in GoG bonds. On account of sharp increases in revenue lines of net interest income and net fees and commissions, profit-before-tax increased by 51.2 per cent during HY-2023, with profit-after-tax of GH¢4.3 billion, representing a 51.4 per cent increase.

The key FSIs remained broadly sound, supported by the temporary regulatory reliefs extended to the banks in the wake of the DDEP. The industry's Capital Adequacy Ratio (CAR) with reliefs as at June 2023, stood at 14.3 per cent. However, the industry's NPL ratio deteriorated to 18.7 per cent in June 2023 reflecting higher loan impairments and elevated credit risks. The industry's liquidity indicators on the other hand, improved during the period under review.

In the outlook, based on the first half year results, banks are expected to remain profitable by year-end. Stress test results on the recently announced restructuring of cocoa bills and the locally issued USD denominated bonds show that the banking industry will be able to withstand additional impairment charges. It is expected that the banking sector will be capitalised by existing shareholders and from solvency support from the GFSF.

3.2 Regulatory Developments

The Bank of Ghana unwound some COVID-19 reliefs in line with global trends. The Bank of Ghana (BOG) assessed as minimal, the impact of unwinding the COVID-19 interventions. Accordingly, the Monetary Policy Committee (MPC) in March 2022 unwound some of the intervention measures which included raising cash reserve ratio to 12 per cent from 8 per cent, reverting capital conservation buffer to 3 per cent from 1.5 per cent, effectively making CAR 13 per cent, and provisioning for Other Loans Especially Mentioned (OLEM) reverting to 10 per cent from 5 per cent. However, some of these measures were later re-introduced to cushion the banks from the effects of the DDEP.

The Bank issued two prudential directives for banks in accordance with provisions of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930). The Corporate Governance Disclosure Directive (CGDD) was issued in May 2022 to assess the effectiveness of regulated financial institutions' corporate governance practices and their risk profiles following the issuance of the Corporate Governance Directive in 2018. The CGDD was to enhance transparency, market discipline and accountability whilst promoting public confidence and trust in the institutions. The CGDD also sought to amend all disclosures required in the institutions' Annual Report as stated in the Corporate Governance Directive. Secondly, the Supervisory Guidance under Section 62 of Act 930 – Eligible Collaterals Directive was issued in July 2022 to broaden the scope of eligible instruments that may be considered for collateral purposes as outlined under section 62(8) and (9) of Act 930. It outlines the eligible instruments that may be held as "deductible" collateral for the purposes of computing financial exposure to a single counterparty as well as guidance on the determination of secured and unsecured financial exposures. The broadening of the scope of eligible collaterals would promote economic growth through private sector credit expansion.

The Bank of Ghana reviewed the Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) directives in line with current developments. The Bank of Ghana collaborated with the Financial Intelligence Centre (FIC), and relevant stakeholders to review the AML/CFT&P Guidelines, and the Administrative Penalties and Sanctions for Accountable Institutions which was issued in 2018. Following this review, the BOG has revised the AML/CFT&P Guidelines and the Administrative Penalties and Sanctions for Accountable Institutions in line with the provisions in the Banks & Specialized Deposit Taking Institutions, Act 2016 (Act 930) and the Anti-Money Laundering Act, (Act 1044). Also, a simplified AML/CFT&P Guideline is being drafted for Foreign Exchange Bureaux.

Ghana was re-rated with respect to Financial Action Task Force (FATF) Recommendation 8. Ghana was re-rated as Partially-Compliant from Non-Compliant with regards to FATF Recommendation 8 on the abuse of Not

PUBLIC

for Profit Organizations (NPOs) for money laundering, terrorist financing and proliferation activities. The improved rating reflects the measures the country has put in place to make it technically compliant with FATF standards.

The BOG in collaboration with the credit bureaus have initiated the process for the introduction of a credit scoring regime. This development is on the back of the introduction of the Ghana Card, which presents a unique identifier for credit information. Through regular engagements with credit bureaus, financial institutions have begun updating existing credit information with the new Ghana Card information to facilitate the implementation of credit scoring.

The number of designated data providers and users of the credit reporting system has been expanded. The Bank of Ghana engaged and designated twenty-two (22) new institutions outside the banking sector as data providers and authorised users of the credit reporting system during the year under review. These institutions included retailers, financial technology companies and credit unions. This development follows the passage of the Credit Reporting Regulation 2020 (L.I. 2394) that expanded the scope of the credit reporting system.

Licence revocation of a credit reference bureau for non-compliance. The Bank of Ghana, pursuant to section 11 of the Credit Reporting Act, 2007 (Act 726), revoked the licence of Hudson Price Data Solutions Limited on November 21, 2022. The company persistently failed to comply with provisions of Act 726, the Credit Reporting Regulations, 2020 (L.I. 2394) and the Bank of Ghana directives after several warnings. The Bank of Ghana shall continue to monitor developments in the industry to identify emerging risks and potential threats to the safety and soundness of the banking sector and shall issue further guidance where necessary.

3.3 Emerging Risks and Mitigating Measures

The Bank of Ghana issued regulatory reliefs to support banks in the midst of the debt exchange. The Bank of Ghana issued regulatory relief measures for banks and specialised deposit-taking institutions (SDIs) that fully participated in the DDEP. These relief measures included the following:

i. Reduction of cash reserve ratio;
ii. Reduction of capital conservation buffer from 3% to 0% contributing to a reduction of CAR from 13% to 10%;
iii. Losses emanating from the DDEP spread equally over a four (4) year period beginning end-December 2022 and ending December 2025, for purposes of CAR and Net Own Fund computation; and
iv. A maximum of four (4) years ending 2025 to restore minimum paid-up capital as a result of any capital shortfall arising solely from DDEP losses.

The Bank of Ghana has directed banks to recapitalize following the impact of the DDEP. Sequel to the closure of the DDEP in February 2023, the Bank of Ghana undertook various stress tests and impact assessments of the DDEP on the banking industry, which indicated that banks would be adversely impacted by the DDEP. Following the release of the 2022 audited financial statements of banks which showed capital shortfalls, the Bank of Ghana has directed banks to submit recapitalisation plans to reflect strategies to recapitalise progressively over a 3-year period ending 2025.

The Bank of Ghana has commenced discussion of the development of a directive to curtail the concentration of the banking industry in sovereign exposures. This decision follows the adverse impact of the DDEP on the banking industry arising from the high exposure of the banking sector to the sovereign exposures. This, however, has not been implemented in any country to the best of our knowledge making it a novel regulatory policy on sovereign exposures when implemented.

The Bank of Ghana has commenced development of a Business Model Analysis (BMA) Framework to enhance its supervisory practices for assessing the sustainability of banks and SDIs' business models. BMA allows supervisors to identify banks' vulnerabilities at an early stage and ensure safety and soundness. Following the adverse impact of the DDEP, the Bank of Ghana is focused on assessing the implications of banks and SDI's strategies and business models in response to shocks; and whether these business models are sustainable and consistent with their risk appetites.

The Bank of Ghana has incorporated the conduct of a preliminary Asset Quality Review in its examination/ supervisory programme for 2023. This is a special exercise by supervisors to assess institutions' books and ensure credit facilities are classified in line with Bank of Ghana's norms as well as the International Financial Reporting Standards.

Finally, the Bank of Ghana has commenced the implementation of Pillar 2 and 3 of the Basel II/ III capital framework. The Bank issued the Capital Requirement Directive in 2018 which is based on Pillar 1 of Basel II/ III and started the implementation of Pillar 2 and 3 in the year under review. This is to ensure that banks have adequate capital that reflects their level of risks and make disclosures accordingly. Directives to be issued under Pillar 2 and 3 include:

i. Liquidity Risk Management Directive;

PUBLIC

ii. Supervisory Review and Evaluation Process (SREP) Guidance Notes;
iii. Internal Capital Adequacy Assessment Process (ICAAP) Guidance Notes;
iv. Guide to Supervisory Intervention;
v. Concentration Risk Directive;
vi. Interest Rate Risk in the Banking Book Directive; and
vii. Financial Publication Directive.

The Bank of Ghana also deepened work on the management of climate-related financial risk for the banking industry. Ghanaian banks are exposed to climate change through macroeconomic and microeconomic channels arising from physical and transition risk drivers. Banks are also exposed to climate-related risks through counterparty exposures including external and domestic corporates, sovereigns, households and other financial institutions. Through its membership of the FSB RCG SSA and the NGFS, the BOG participated in engagements aimed at strengthening regulators to put in place policies and programs to help address climate-related risks. The BOG has also engaged with the Agence Francais de Developement (AFD) and the Willis Towers Watson (WTW) to conduct a research study on transition risks in Ghana.

The Bank has intensified its public awareness and sensitisation program to control operational risk. The 2022 Fraud Report indicated a high level of operational risk from increasing fraud related activities like cash suppression and fraudulent withdrawals. Such activities could hinder deposit mobilisation which could result in liquidity challenges and also expose the institutions to some reputational risks. The Bank embarked on massive sensitisation and ensured that effective controls are put in place to stem these tides to adequately minimise the associated operational risk.

The Bank of Ghana also undertook measures to deal with emerging risks in the Payment and Settlements as well as the Financial Technology (FinTech) Space. These have been summarised in Box 3.2.

Box 3.2 - Dealing with Emerging Risks in the Payment and Settlement Space

The Bank of Ghana continues to support smooth functioning of the economy through provision of varied forms of payment streams and market infrastructure. In 2022, public acceptance of electronic payment continued to increase evidenced by an increase of 14.4 per cent in mobile money subscription to 55.3 million and growth in volume of mobile money transaction of 19.3 per cent to GH₵5.1 billion. The Bank granted authorisation of various payment and settlement products and services, accreditation of cheque printers as well as examination of banks' payment system operations. This development has visibly enhanced dynamism in financial service delivery in Ghana, evident by how firms, are leveraging FinTechs to streamline operations and offer new digital financial products and services at lower cost. Consumers on the other hand, are benefiting from improved access to financial services, lower cost, convenience, and better user experience. Thus, the evolution of FinTechs has undoubtedly delivered substantial financial inclusion benefits, unlocked life-changing opportunities for consumers and contributed immensely to the economic growth and development of the country. To promote effectiveness in this space, the Bank continues to monitor emerging risks including fraud, cyber and information technology risks, and operational risks.

The Bank collaborated with stakeholders to enhance customer verification to minimise fraud in the payment ecosystem. On account of the increased use of electronic payments for transactions, fraudsters have devised schemes to defraud unsuspecting customers. The main means of operation of fraudsters mostly involve SIM swaps, identity theft and other social engineering methods. To mitigate the risk of fraud, especially through identity theft, the Bank issued a directive to all financial institutions to ensure that only the National Identification card is used as primary means of identification for all financial transactions. Additionally, to protect wallets hosted on mobile devices the National Communications Authority issued a directive for all mobile numbers in Ghana to be registered with the National Identification card.

The Bank continues to enforce provisions in the cyber and information security directive to mitigate cyber threats within the payment and settlement space. The year 2022 witnessed some incidents of cyber-attack on some payment platforms and channels. Cybersecurity risks to payment space ranges from hacking, cyber-attacks, malware infections, phishing scams, and ransomware attacks. In 2022, cyber criminals continued to explore new ways to exploit vulnerabilities in the technology and infrastructure that support payment systems to gain unauthorized access to payment systems platform, steal personal information and funds, or disrupt the system's operations. The Bank's Cyber and Information Security Directive (2018) provides the minimum standards and guidelines to guide the implementation of robust technological infrastructure and undertake

PUBLIC

Box 3.2 - Dealing with Emerging Risks in the Payment and Settlement Space continued

periodic system vulnerability and penetration testing. Also, the directive requires all payment service providers to be ISO 27001 certified or compliant to enhance information security. The Bank has developed the Financial Industry Command Security Operations Centre (FICSOC) to help collect, analyse, normalise and aggregate system logs, alerts and related cyber security incidents across the financial industry. The FICSOC will provide real-time visibility into cyber threats and attacks targeting the banking and digital financial sectors. In addition, all payment service providers are required to obtain certification from the Data Protection Commission. This is to help control data breaches which could result in identity theft and undermine consumer trust.

The Bank of Ghana collaborated with law enforcement agencies to clamp down on illegal operators in the FinTech space and sensitised the public against activities of these institutions. There is a new wave of consumer risks in the country in the form of unauthorised/unlicensed digital lending characterised by indiscriminate abuse of customer data and privacy. Unauthorised and/or unlicensed digital lending apps and P2P platforms, which mimic genuine apps and platforms intrusively obtain customer data and offer desperate customers hassle-free but extremely expensive digital loans. Agents of these unauthorised firms then use unethical and abusive debt collection practices, such as social shaming and threats among others, to pressure customers to repay their loans. The apprehension of some 422 individuals who were suspected of operating illegal mobile lending applications was as a result of such collaborations. The Bank also regularly issues notices to warn the public against entities that are not duly licensed and therefore whose appropriate conduct in the cyber space cannot be ascertained. This is evident in the recent publication of the list of ninety-seven (97) unlicensed digital lending platforms.

The Bank has implemented a sandbox platform and a chatbot system to promote innovative products and develop appropriate complainant management solutions. The implementation of the sandbox platform allows the Bank to collaborate with innovators to understand their proposed innovations to enable the Bank prepare to adequately support and regulate them. Through this initiative the Bank is able to pre-empt emerging risks and put in place adequate frameworks to minimize their likelihood and/or impact on the ecosystem. In addition. the Bank has launched its chatbot dubbed 'Akushika', an automated consumer complaints management system which has made it easy to file a complaint with the central bank from anywhere in the world. The intelligence built into the system also enables the Bank to extract information on the aspects of market conduct requiring urgent intervention.

PUBLIC

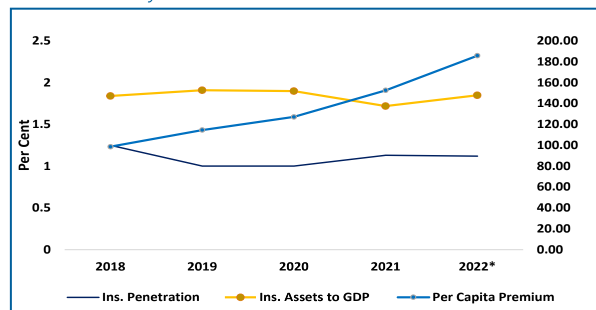
4 Assessment of the Insurance Industry

4.1 Performance of the Insurance Industry

Amid the elevated risks in the global and domestic macroeconomic environments, the insurance industry in Ghana showed signs of resilience in 2022 with a positive outlook in 2023. Gross premiums of the insurance industry grew by 25 per cent[3] to reach GH₵6.56 billion in 2022. The NIC's digitization agenda continues to be a catalyst for the growth of premiums in the insurance industry. Additionally, the review of the Motor Insurance Database and the proposed Marine and Aviation Insurance Database (MAID) are expected to further boost growth in insurance premiums. The MAID will enable the NIC to house and track all marine and aviation insurance policies underwritten in Ghana, and secondly, assist the Customs Division of GRA to easily authenticate details of all marine insurance policies submitted to the Authority by importers. Also, the increase of the Minimum Capital Requirement (MCR) by the NIC will ensure, among others, higher retention of premiums and a more robust insurance industry. However, the DDEP poses a risk to the capitalization of the industry, but with the regulatory forbearances in place, the industry is expected to overcome this challenge.

The rate of insurance penetration continues to remain stable at 1 per cent over the five-year period. It is expected that insurance penetration will be on an appreciable ascendancy in the medium to long-term. This is on the back of the expected gains from the full implementation of the Insurance Act (Act 1061), the increased MCR, the roll-out of innovative products and an expansive public education programme. The success of this may, however, be hindered by the likely loss of public confidence in the event insurers are unable to honour claims/benefit payments due to liquidity shortfalls from the impact of the DDEP. The DDEP may also increase the rate of surrenders.

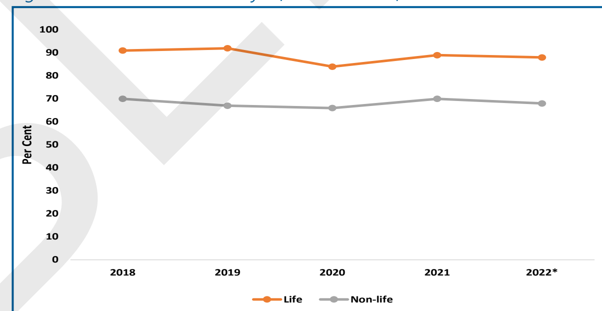
Figure 4.1 Insurance Penetration, Insurance Industry Assets/GDP and Insurance Density



Source: National Insurance Commission

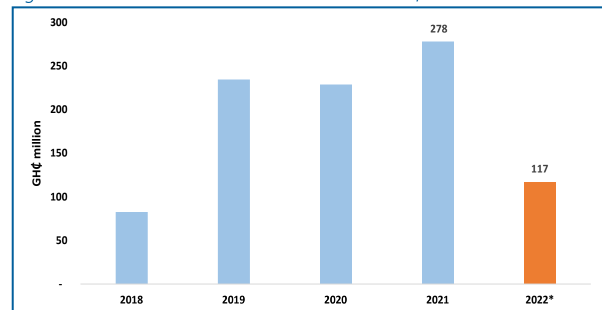
Although retention ratios marginally declined in both Non-Life and Life sectors, they remained within the reinsurance guidelines. In the non-life segment, retention ratio reduced from 70 per cent to 68 per cent. Similarly, retention ratio reduced in the life segment, but remained high as expected at 88 per cent, reflecting the nature of business (i.e. the demand for savings-linked insurance products as well as the long-term nature of the actuarial liabilities). A total amount of GH₵117 million was approved in respect of overseas reinsurance premiums transfers, by the NIC. In the medium to long-term, it is expected that the initiated recapitalization exercise for the industry will enhance the risk retention capacity of insurers and allow life insurers focus on underwriting pure risks insurance products.

Figure 4.2 Retention Ratios by Life and Non-Life Insurers



Source: National Insurance Commission

Figure 4.3 Overseas Reinsurance Premium Transfers



Source: National Insurance Commission

The CAR for the insurance industry declined in 2022 but remained well above the regulatory minimum of 150 per cent. Though the CAR declined in 2022, the industry equity position improved from GH₵3.88 billion in 2021 to GH₵ 4.45 billion in 2022, representing a 15 per cent growth over the period. The decrease in CAR reflects the factoring of some risk adjustments and impairment losses made in the period under review. In the medium-to-long-term, though disruption to stability is expected due to the DDEP, the implementation of some regulatory forbearances by the NIC is expected

[3] *This growth, however, excludes premiums from oil and gas. Growth is expected to be higher when oil and gas business is included in the calibration*

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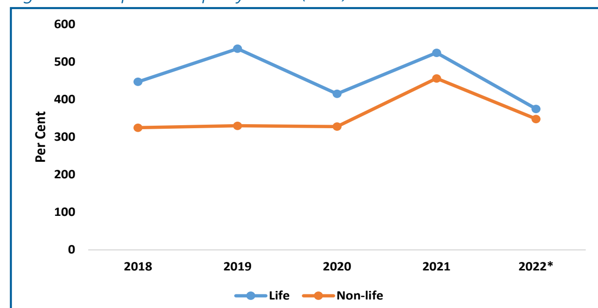
to maintain a stable and positive outlook. In addition, whilst liquidity positions (especially for the life sector) may be threatened, the willingness of the insurance industry to maintain sound corporate governance practices will contribute to the maintenance of CAR above the regulatory requirement of 150 per cent.

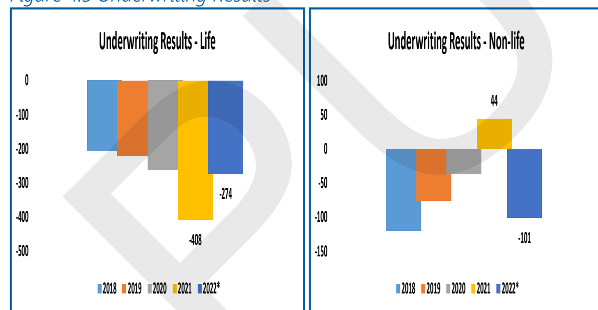
Figure 4.4 Capital Adequacy Ratio (CAR)



Source: National Insurance Commission

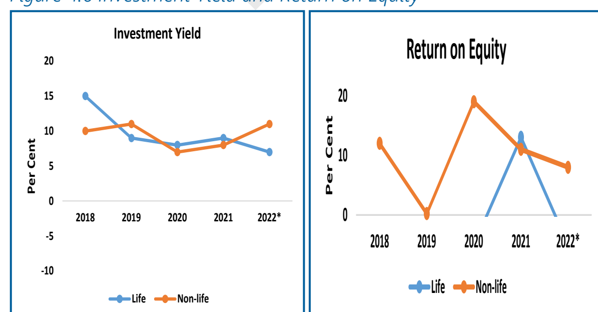
Return on Equity deteriorated for both the life and non-life sector in the year under review. For both sectors, investment income remained the compensator given that their core operations were negatively impacted by underwriting losses. Going forward, profitability risk will be elevated given the impact of the DDEP on the yields of investment portfolios held by insurers. Insurers are expected therefore to refocus their operations in order to be profitable in their core business (i.e., underwriting). This is to make up for the foreseeable losses with respect to their investment portfolios in the next couple of years. Insurers are also expected to build on the recapitalization exercise to introduce efficient and effective cost measures to improve on underwriting results in the near-to-medium-term.

Figure 4.5 Underwriting Results



Source: National Insurance Commission

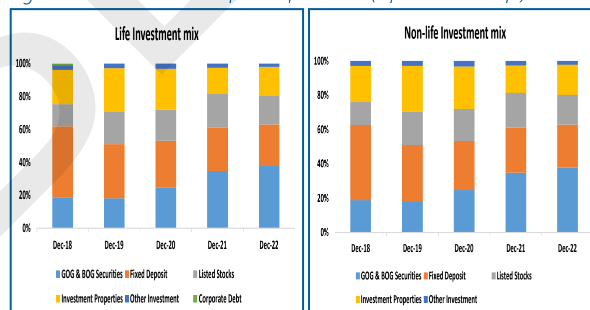
Figure 4.6 Investment Yield and Return on Equity



Source: National Insurance Commission

Total Investment assets grew by 21 per cent from GH₵7.1 billion at year-end 2021 to GH₵8.6 billion at year-end 2022. Investment assets in the Life sector amounted to GH₵5.5 billion in comparison to GH₵3.1 billion in the Non-life sector. Both Life and Non-life sectors maintained the trend of having the concentration of investment assets in fixed income. Growing by 34 per cent, non-life increased their holdings in GOG & BOG securities to 38 per cent of the total investment from 35 per cent in 2021. Also fixed deposits accounted for 25 per cent, while listed securities and investment properties accounted for 17 per cent each in the investment mix of the non-life sector. With regard to the life sector, investment asset in GOG and BOG securities grew by 21 per cent and its proportion in the investment mix remained at 49 per cent in 2022. The life sector's investment properties holdings increased by 2 percentage points to stand at 22 per cent, whilst fixed deposit stood in the third position with 13 per cent, shedding away 3 percentage points in 2022. The sustainability of the insurance industry will be dependent on how well insurers are able to optimize their core operations (i.e. underwriting) to remain profitable as expected investment returns have been severely reduced by the implementation of the DDEP.

Figure 4.7 Investment Portfolios of Insurers (Life and Non-Life)



Source: National Insurance Commission

4.2 Regulatory Developments

The NIC in partnership with the Financial Sector Deepening (FSD) Africa and the GIZ Ghana, an Innolab Insurtech Accelerator programme was organized. The initiative was to mobilize Insuretechs in the development of innovative solutions in the insurance industry. Hence, ten (10) Insurtechs start-ups presented their innovative initiatives to support and develop the Ghanaian Insurance Market.

NIC initiated work towards implementation of sustainable insurance practices. Following a survey conducted in partnership with FSD Africa, the NIC launched the sustainable initiative to integrate Environmental, Social and Governance (ESG) risk in the industry. The ultimate goal is to provide the regulatory framework for the industry to incorporate ESG-related exposures in their risk management assessments.

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The NIC organised various training programmes for stakeholders. With the exception of the Ghana Revenue Authority (GRA), all players in the insurance industry have been trained on the centralized database for the Marine and Aviation insurance business. The major objective of the database is to aid the GRA to easily verify whether imported goods are insured with a Ghanaian insurance company as required by law. To ensure compliance with IFRS 17, the NIC trained selected individuals comprising: Chief Executive Officers (CEOs), finance officers and underwriters of insurance companies. The training was organized by Ghana Insurance College in conjunction with the Institute of Chartered Accountants of Ghana (ICAG). It is expected that the implementation of IFRS 17 will amongst others, ensure reliability and comparability of insurers' financial statements since the standard facilitates the consistent application of principles of accounting for insurance contracts.

With the aim of promoting cooperation amongst members and strengthening the practice of insurance in developing countries, The NIC facilitated the hosting of the 22nd International Educational Conference organised by the Association of Insurers and Reinsurers of Developing Countries (AIRDC) and the Association of Insurance Supervisory Authorities for Developing Countries (AISADC). The conference was well-attended by Insurance Industry players from developing countries.

NIC to co-host the 2023 session of the International Conference on Inclusive Insurance from October 23, 2023 to October 27, 2023. The NIC will jointly co-host the conference with the Ghana Insurers Association and the Insurance Brokers Association of Ghana in collaboration with the Munich Re Foundation. The Conference aims at discussing and identifying how emerging markets can accelerate growth and economic viability in inclusive insurance.

4.3 Measures to Mitigate Emerging Risks

Embracing digital transformation has become imperative for insurers to stay ahead of the curve. Unlike other businesses where peak seasons are easily predicted, the insurance industry is usually saddled with natural disasters (such as floods, earthquakes, fire outbreaks, etc.) which are highly unpredictable. This could lead to higher demand for claims payment, which makes planning a relatively more daunting task. Adding to this unpredictability is the high risk of climate change, which could increase the financial obligation of the insurer. This presents a major threat to the profitability of the insurer and could affect its status as a going-concern entity. In reducing the impact of the unpredictability of natural disasters and increasing climate risk, digitalization improves disaster and climate risk management by enhancing prediction accuracy, enabling informed decision-making, and fostering community engagement. It also aids in the provision of valuable insights, the promotion of proactive strategies as well as facilitating real-time communication for comprehensive risk management and community resilience. Digitalization is, therefore, necessary to strengthen the underwriting processes to become more flexible in the insurance service delivery while remaining profitable. In addition, insurers will need to collaborate more in the pursuit of digital transformation to ensure the long-term sustenance of the Ghanaian insurance industry.

NIC has instituted regulatory forbearances to help mitigate the impact of the DDEP on solvency as well as liquidity risks. The industry is faced with the risk of insolvency resulting from impairment losses emanating from the DDEP. In addition, insurers are faced with potential liquidity challenges due to the moratorium on the principal repayment, and reduction in coupon rates on restructured government bonds. Although some regulatory forbearances have been put in place by the NIC, the NIC is working with other financial sector regulators to ensure that the Government-planned Ghana Financial Stability Fund (GFSF) is set up to provide liquidity and solvency support to insurers and to maintain public confidence in the insurance sector.

NIC continued to sensitise industry players to mitigate cyber security risks. Increased risk of cyber-security threats is anticipated as more digital platforms are developed and rolled out. The likely risks range from data protection breaches, ransomware attacks, insider threats, such as employees stealing sensitive data, accidentally disclosing sensitive information or committing outright fraud, and third-party risk. Insurers must ensure that the crystallization of these risks are minimised by increasing investments in cyber monitoring tools to mitigate exposure to such threats.
NIC continued to leverage on technology to contain practices that deepen underwriting losses. Over the years, underwriting losses have been the bane of the industry. This creates doubts about the wholesale viability of core insurance operations. Practices of under-pricing and the payment of commissions to persons not licensed by NIC, together with uncontrolled expenditure contribute to underwriting losses making the core business of insurers unprofitable. To address this challenge, particularly in the motor insurance business, the NIC implemented the Motor Insurance Database (MID). Box 4.1 provides highlights of recent developments in the insurance sector.

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Box 4.1 - Recent Developments in the Insurance Sector

The Insurance Industry maintained its growth trajectory in the first half of 2023 despite the impairment losses from the DDEP in 2022. Total insurance assets grew marginally to GH₵11.56 billion at end-June 2023 from GH₵11.06 billion at end-June 2022. Similarly, total investment assets grew to GH₵8.61 billion in June 2023, from GH₵8.23 billion in June 2022. Total Equity grew by 7.9 per cent in June 2023 to GH₵4.62, with the Life industry contributing GH₵2.02 billion and the Non-life industry contributing GH₵2.60 billion. The CAR for the Life and non-life industry also averaged 479.5 per cent and 374.3 per cent respectively in June 2023.

Gross Premiums however fell to GH₵2.76 billion at end-June 2023 from GH₵3.07 billion in June 2022. Gross premium contributions from the Life sector amounted to GH₵1.51 billion, whilst that of non-life was GH₵1.23 billion. The motor class of business continued to lead, followed by fire, theft and property business. With respect to the Life sector line of business, Universal life & Investment Products continued to lead followed closely by Whole life and Endowment Products business.

With regards to profitability performance, the expense ratio remained elevated in the first half of 2023. The Life industry recorded an expense ratio of 76.0 per cent while the non-life recorded 72.0 per cent. Accordingly, profit after tax was lower in the life industry (GH₵179 million) as compared to the non-life industry (GH₵246 million). As at end-June 2023, the claims ratio and underwriting profit for the non-life industry was 28.0 per cent and GH₵42 million respectively.

In respect of liquidity, the industry average for the proportion of Investments to total assets was 83.9 per cent and 61.6 per cent for Life and Non-life, respectively. In addition, the Policyholder Benefit Cover and Technical Reserve Cover were 223.6 per cent and 112.1 per cent for Life and Non-life respectively. The Liquidity ratio also stood at 148.9 per cent as at end-June 2023. Generally, the liquidity position of the insurance industry remained strong as at end-June 2023.

Going forward, growth in the industry is expected to increase and remain robust and resilient given initiatives implemented. The NIC will intensify its regulatory and supervisory activities and implement the provisions of the Insurance Act to ensure the healthy growth of the insurance industry and the maintenance of financial stability in the Ghanaian financial eco-system.

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5 Assessment of the Securities Industry

5.1 Performance of the Securities Industry

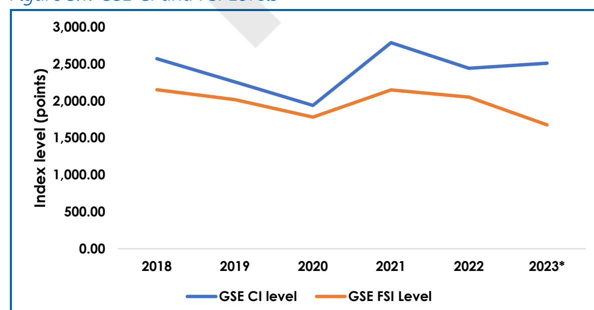
2022 was a challenging year for the securities sector. The industry retreated across the equities, debt, and Funds Management segments. These developments in the securities industry were broadly reflective of the macroeconomic conditions, with escalated inflationary pressures and domestic currency depreciation, which had an adverse impact on investor sentiments. That notwithstanding, the securities industry has remained resilient in the first half of 2023, as inflationary expectations begin to soften.

5.1.1 Equities Market

The equity market recorded a downturn in 2022 with both the Ghana Stock Exchange Composite Index (GSE-CI) and the GSE Financial Stocks Index (GSE-FSI) posting declines on a year-on-year basis. Fuelled by the skittish investor sentiments on the Cedi's steep depreciation, high inflation, sovereign & selected bank downgrades, and interest rate hikes, the GSE-CI posted a decline of 12.4 per cent (FY2021: +43.7%) to end the year with 2,443.91 points. Similarly, the GSE-FSI declined by 4.61 per cent (FY2021: +20.7%) to end 2022 with 2,052.59 points.

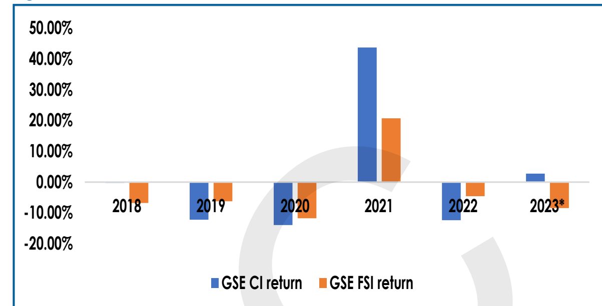
Despite the challenges faced in 2022, the market depicted signs of recovery in the period leading up to May 2023, with the GSE CI reaching 2,511.29 points (+2.8% year-to-date). This indicates a gradual shift from the downturn experienced in 2022. Factors such as improved macroeconomic stability, improved investor sentiment, and the gradual softening of inflationary expectations have contributed to this upward trajectory. The industry's resilience and ability to adapt to prevailing economic conditions suggest a promising outlook for future growth.

Figure 5.1: GSE CI and FSI Levels



Source: GSE, 2023[4]

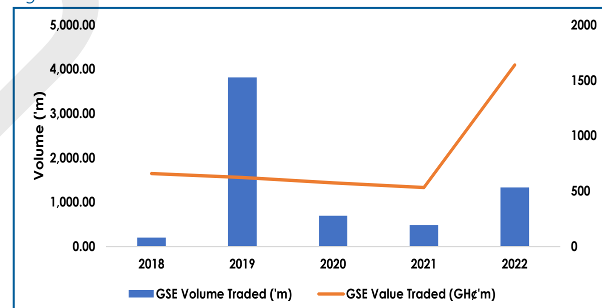
Figure 5.2: GSE CI and FSI Annual Returns



Source: GSE, 2023[5]

The market breadth was negative. On a year-on-year basis, fifteen (15) counters recorded declines, ten (10) counters increased, while the remaining thirteen (13) stocks remained unchanged. Market turnover however increased more than three-fold from GH₵533 million in 2021 to GH₵1,639.8 million from trades in 1,335 million shares (+174% year-on-year). Trading activity was led by the telecommunications sector and the safe haven appeal of the Gold-backed exchange-traded fund.

Figure 5.3: Volume and Value Traded



Source: GSE, 2022

Despite the increased trade activity, the value of listed securities remained fairly unchanged due to the larger number of stocks that declined in price. The cumulative value of the listed counters was GH₵64.51 billion, a marginal increase of 0.02 per cent above the 2021 capitalisation of GH₵64.50 billion. Additionally, as of May 2023, the market capitalisation of GH₵65.78 million (+1.98% year-to-date) was recorded, reflecting a positive growth trend. This marginal increase in market capitalisation was attributed to improved market position and the listing of Asante Gold Corporation by introduction.

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[4] *Data up to May 2023*
[5] *Data up to May 2023*

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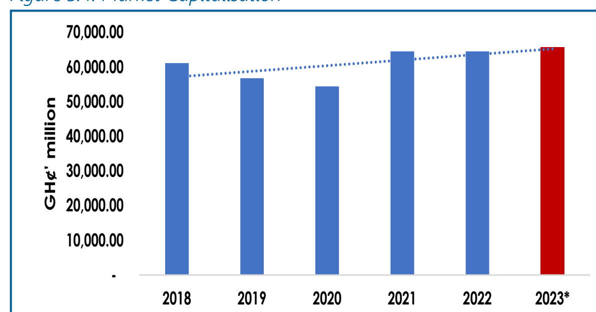
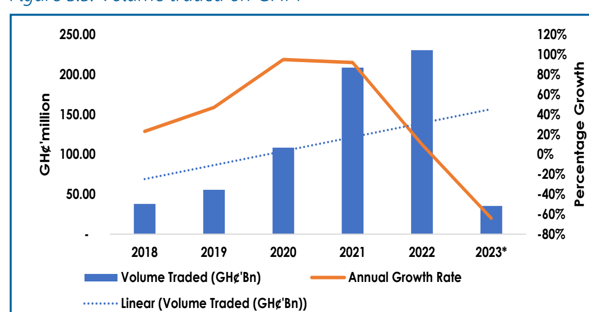
Figure 5.4: Market Capitalisation



Source: GSE, 2023[6]

Figure 5.5: Volume traded on GFIM



Source: GFIM, SEC, 2023[7]

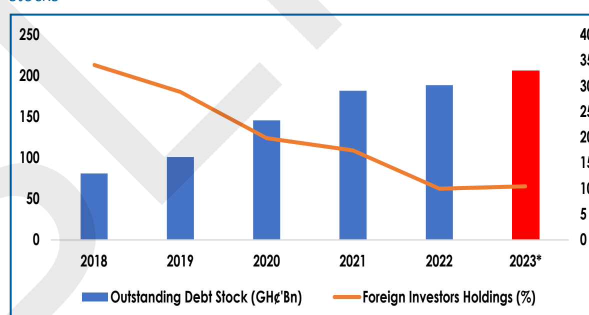
5.1.2 Fixed Income Market

The total volume of debt instruments admitted to Central Securities Depository (CSD) declined in 2022, compared to 2021. The total volume of debt instruments admitted to the CSD in 2022 was GH₵163 billion (-19% y/y), down from GH₵201billion in 2021. The indicated figure displays a relatively modest degree of variation, as evidenced by the data concerning admitted bonds, which experienced a marginal adjustment to GH₵161 billion within the initial four months of the year 2023. At the end of 2022, 199 debt instruments were listed on the Ghana Fixed Income Market (GFIM), with GoG securities accounting for 85 per cent of the outstanding debt stock. Corporate bonds accounted for 15 per cent of the outstanding debt stock. This narrative remained unchanged with government bonds dominating the debt stock. GoG securities accounted for 82 per cent of the outstanding debt stock whiles corporate securities accounted for 18 per cent as of May 2023.

Value of debt instruments traded increased in 2022, albeit at a slower growth rate. The bond market closed 2022 with a cumulative trade volume of debt securities of GH₵230.68 billion, a 10.60 per cent increase over the 2021 trade volume of GH₵208.57 billion. The 2022 growth rate was a significant decline from the 2021 growth rate of 92.6 per cent as trading activity markedly slowed down in the last quarter of 2022 due to the uncertainties surrounding the Government of Ghana's Domestic Debt Exchange Programme. The fixed income market's slowdown narrative persisted amid ongoing challenges, particularly in Q1 2023, as the market is yet to recover from the effects of the DDEP and the challenging macro environment that characterized 2022. Volume traded for the initial five months reached GH₵35.5 billion, representing a significant decline of 64 per cent year-on-year. Outstanding securities in 2023's reporting period totalled GH₵233.5 billion, compared to GH₵178.1 billion in 2022, indicating increased value of debt instruments traded and low market turnover as previously attributed.

The fixed income market was primarily driven by resident investors, who held 90 per cent of the outstanding debt. Non-resident holding of outstanding debt declined to 10 per cent at the end of the reporting period (FY2021: -17%, FY2020: - 20%). Sell-offs by foreign investors were against the backdrop of inflation fears, cedi depreciation and debt sustainability concerns. This phenomenon persisted till end-April 2023, primarily due to the absence of significant shifts in the prevailing macroeconomic conditions.

Figure 5.6: Year-end holdings of foreign investors in outstanding debt stocks



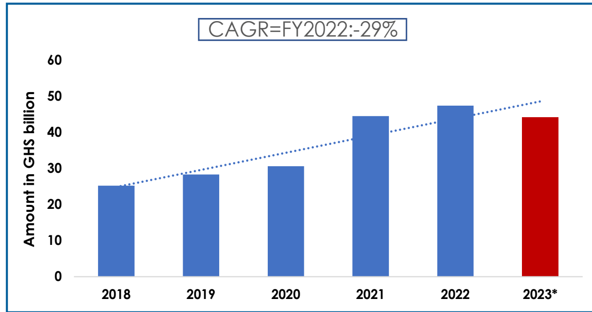
Source: CSD, 2023[8]

5.1.3 Asset Management Industry

The asset management industry remained resilient in 2022 amid the challenging macroeconomic conditions that spilled over to the securities industry. Total Asset Under Management (AUM) at the end of 2022 was GH₵48.8 billion (Mark-To-Market: GH₵47.4 billion), representing 10 per cent growth from the previous year and a Compound Annual Growth Rate (CAGR) of 33 per cent from a decade ago. The growth in AUM was comparatively lower than the 45 per cent growth recorded at the end of 2021, a period marked by strong inflows and market performance. However, the growth witnessed during Q1 of 2023 decelerated significantly in terms of the Mark-to-Market values. The total net assets for the reported period experienced a decline, reaching GH₵44.2 billion (HTM value: GH₵52.6 billion), indicating a quarter-on-quarter decline of 7 per cent.

[6] *Data up to May 2023*
[7] *Data up to May 2023*
[8] *Data up to April 2023*

Figure 5.7: AUM Growth

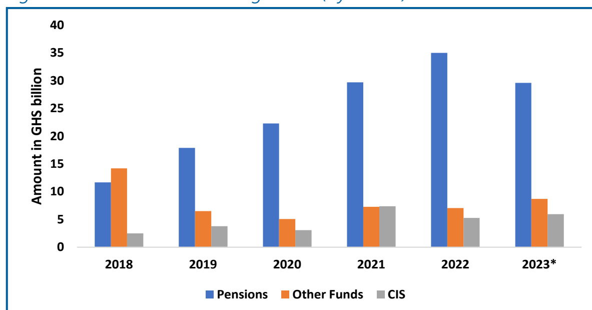


Source SEC, 2023[9]

Both pension and discretionary funds increased while Collective Investment Schemes (CIS) declined in 2022. Pensions fund grew by 18 per cent in 2022 to GH₵35 billion, representing 72 per cent of total assets under management (AUM). Other funds (discretionary) increased by 5 per cent to reach GH₵7.3 billion, representing 16 per cent of the industry assets. Collective Investment Schemes (CISs), on the other hand, declined by 19 per cent to end 2022 with total funds under management of GH₵6 billion, constituting 12 per cent of the industry assets. The negative growth in CIS was partly due to the implementation of the mark-to-market directive issued by SEC to market operators (Directive to Market Operators: SEC/DIR/002/10/2022). Additionally, interest rate developments in the money market fuelled the appetite for treasuries, translating into the transfer of funds from CIS (Redemption as a % of NAV in FY2022: -22%, FY2021: -11%) to government securities.

In 2023 Q1, pension funds under management decreased while the discretionary and the CIS increased. The pensions category declined by 16 per cent quarter on quarter to GH₵29.6 billion representing 67 per cent of the overall AUM. This decline can primarily be attributed to the prevailing conditions observed within the secondary fixed income market, which exerted a tangible impact on this particular asset class. Conversely, the discretionary funds increased by an impressive 23 per cent quarter-on-quarter constituting 20 per cent of overall AUM. In addition, CISs also experienced an upturn, growing by 13 per cent quarter-on-quarter accounting for 13 per cent of the total composition. This expansion accentuates the growing significance of the CIS and the discretionary

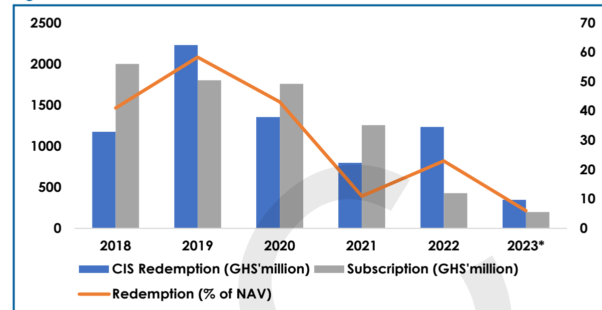
Figure 5.8: Asset Under Management (By sector)



Source: SEC, 2023[10]

funds, as vital components within the investment segment. The enhanced performance of both schemes can be ascribed to the favourable performance exhibited by other asset classes encompassed within their diversified investment portfolios, including equities and government treasuries.

Figure 5.9: CIS Performance

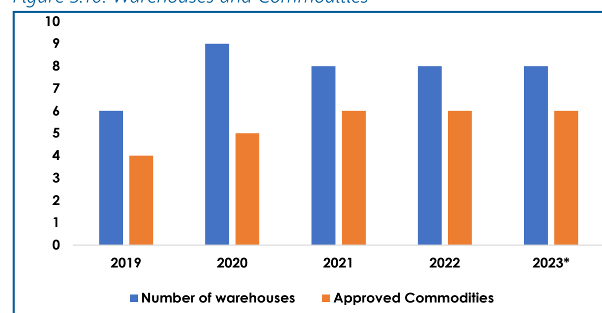


Source: SEC, 2023[11]

5.1.4 The Ghana Commodity Exchange

The 2022 reporting year was a significant turning point for the Ghana Commodity Exchange (GCX) in terms of trades. The commodities traded on the market included Cashew, Maize (White and Yellow), Soya Bean, Sorghum, Sesame, and Rice. These commodities recorded phenomenal growth in terms of trade, with a total trade value of GH₵20.7 million in 2022 as against GH₵6.3 million for the preceding year. This indicates a significant growth of 231 per cent amid challenging macroeconomic conditions and a price trend change due to climate change. The number of contracts for the reporting period was 3,469, reflecting a growth of 19 per cent over the previous year's position. A key driver for the growth in the commodities market was the establishment of a Commodity Aggregation Development Fund (CADeF) to provide funding for commodity aggregators to purchase from the smallholder farmers at the farmgate to increase volumes at the various warehouses. Also, the implementation of a GCX Aggregation Support Scheme improved liquidity on the exchange by way of increasing 'Big Buyers' on the exchange.

Figure 5.10: Warehouses and Commodities



Source: GCX, 2023[12]

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[9] **Data up to Q1 2023*

[10] **Data up to Q1 2023*Data up to Q1 2023*

[11] **Data up to Q1 2023*Data up to Q1 2023*

[12] **Data up to Q1 2023*

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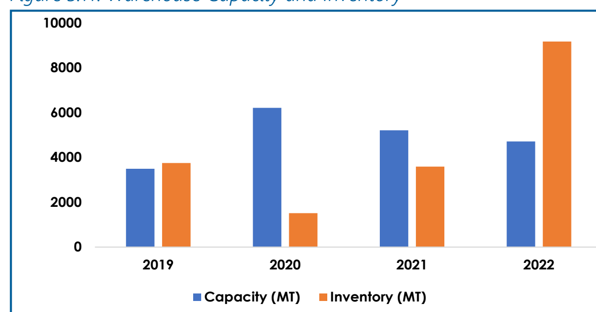
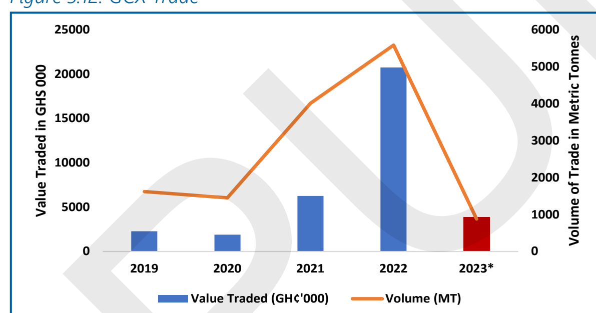
Figure 5.11: Warehouse Capacity and Inventory



Source: GCX, 2022

Trading volumes for the reporting year witnessed a significant surge over the figures reported for the preceding year. The market posted a trading volume of 5,585.27 metric tonnes in 2022, compared to 4,011.22 metric tonnes for the 2021 trading year. As such, a CAGR of 36 per cent was recorded for the market since 2019. There was an increase of 16 per cent in the volumes of maize traded on the market for the 2022 trading period attributable to the fact that maize continues to be the most important cereal crop in the domestic market, accounting for more than one-quarter of calories consumed (Ghana Statistical Service, 2018). Trade in the commodity accounted for 77 per cent of total trade volumes. Other trading commodities including cashew, soya beans, and rice accounted for 23 per cent of trade volume. When comparing 2021 closing prices with that of December 2022 prices, the benchmark contracts of the commodities listed on the market appreciated by up to 65 per cent.

Figure 5.12: GCX Trade



Source: GCX, 2023[13]

Commodity trade for the first quarter of 2023 was bearish compared to same period in 2022. Market proxies declined in the first quarter, specifically, the number of warehouses decreased to 8 warehouses, from 9 previously. Furthermore, trading volumes of commodities experienced a significant decline of 68 per cent to 880.46MT (FY2023Q1) from 2775.46MT in 2022 Q1. In addition, the total value of trades decreased from GH₵6.4 million in Q1 2022 to GH₵3.9 million in Q1 2023. This decline in value reflects a reduction of approximately 39 per cent. Examining the contract data for the first quarters, there has been a substantial decrease from 110 contracts in Q1 2022 to 34 contracts in Q1 2023, representing a decline of 69 per cent. The decline in market performance can largely be attributed to the 500MT of cashew auctioned in Q1 2022. Additionally, the aggregation of commodities into the warehouses during Q1 2022 was more substantial compared to Q1 2023, primarily due to the depletion of funds allocated for 2023. However, it is important to note that the GCX is actively working on increasing the aggregation funds to support storage, which is expected to improve trade volumes.

[13] *Data up to Q1 2023*

5.2 Regulatory Developments

The SEC rolled out a number of regulatory initiatives to address the adverse effects of the Domestic Debt Exchange Programme (DDEP), given the difficult macroeconomic environment. To help manage the potential impact of the DDEP, the SEC supported the market with the following reliefs amongst others:

- regulatory capital forbearance for market operators; and
- exemptions to full compliance with certain regulatory requirements in the Conduct of Business Guidelines, Licensing Requirement Guidelines, the Investment Guidelines for Fund Managers, and other regulatory requirements.

The SEC continues to monitor developments and will implement further interventions where necessary.

The SEC continued with the implementation of the Capital Market Master Plan (CMMP). The document serves as a blueprint for developing the capital market in Ghana for the period 2020-2029. The plan which was launched in May 2021 has a vision of developing "a deep, efficient, diversified and well-regulated capital market with a full range of products attractive to domestic and international investors." The Plan has 4 pillars:

- Pillar 1: Improving the diversity of investment products and liquidity of the securities market;
- Pillar 2: Increasing the investor base;
- Pillar 3: Strengthening infrastructure and improving market services; and
- Pillar 4: Improving regulation, enforcement, and market confidence.

There was significant progress made with the implementation of Phase 1 of the project, themed (Making the Market Attractive). Notable amongst these was the issuance of the Market Conduct Rules, Regulatory Sandbox, and the Self-Regulatory Organizations guidelines. In all, 13 initiatives (39%) out of 33 initiatives were completed. The CMMP Secretariat was also made functional to coordinate the activities of the working groups.

The SEC prioritized investor education in 2022 and

PUBLIC

conducted multiple outreach programmes to enhance financial literacy. "Time with the SEC", the Tamale edition, drew a diverse audience, including teachers, students, pensioners, opinion leaders, and investors to discuss pertinent sector-related issues. The flagship investor education programme focused on educating the public about the Ghanaian capital market and important investment topics. The event covered topics such as collective investment schemes, identifying Ponzi or Pyramid schemes, and provided updates on the Government Bailout Programme and the securities Industry. The open forum allowed investors to directly voice their concerns to the SEC. Moreover, in furtherance of its commitment to fostering financial literacy, the commission actively engaged in the National Financial Literacy Campaign organized by the Ministry of Finance during the initial half of 2023. This participation served as a vital platform for generating awareness and disseminating crucial information to the general populace, thereby contributing to the enhancement of capital market awareness at a national level.

The SEC became a full signatory to the International Organisation of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU) Concerning Consultation Cooperation and the Exchange of Information. Following this achievement, SEC Ghana moved from its signatory "B" status to signatory "A" status in its membership with the IOSCO. This projected the regulatory framework within the securities industry in Ghana as compliant with the international benchmarks set out in the MMoU. Securities regulators share essential investigative material through the MMoU, including beneficial ownership information, and securities and derivatives transaction records, such as bank and brokerage records. The MMoU set out specific requirements for the exchange of information, ensuring that no domestic banking secrecy laws or regulations block the interchange of enforcement information among securities regulators.

In 2022, the SEC remained committed to deepening and making the capital market attractive. To promote listings, the SEC continued with its collaboration with the GSE and State Interests and Governance Authority (SIGA) in a joint committee to work on the listing of some SOEs. The SEC and GSE also worked with the Mineral Commission and Chamber of Mines to implement listing requirements under the Minerals and Mining (Local Participation) Regulations, 2020. SEC is engaged with other private sector companies as well. To incentivize market participants, the SEC engaged with the Ministry of Finance to, among others, ensure that the Capital Gains Tax (CGT) exemption is extended for another 5 years as presented in the 2022 Mid-year budget review.

The SEC strengthened its supervision of securities market operators by issuing guidelines in 2022, in accordance with its regulatory mandate (Section 3 of Act 929). The issued guidelines were:

- Registration of Securities Guidelines 2022
- Over-The-Counter Market Guidelines 2022
- Note Trustees Guidelines 2022
- Issuing House Guidelines 2022
- Self-Regulatory Organizations Guidelines 2022
- Directive To Market Operators on the use of Fair Value Through Other Comprehensive Income ("Mark-To-Market") Valuation Method.

Additionally, as the market continued to recover from the pandemic, several regulatory measures were instituted to maintain business operations and continuity. These efforts were aimed at enhancing the systemic resilience of the capital market. The guiding principles of these initiatives sought to ensure the timely continuity of critical services and fulfillment of business obligations in any unlikely event. The SEC instituted a business continuity management approach which included an initiative to work on Business Continuity guiding principles for market operators to mitigate the possibility of wider systemic risk implications, recognizing how the market landscape is rapidly transforming. These principles were expected to develop, maintain, test, and review their business continuity plans. The guiding principles were to be consistent with the five (5) Joint Forum High-Level principles by the Basel Committee of Banking Supervision, the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors.

The SEC joined the Sustainable Banking and Finance Network (SBFN) in Q1 2023. This membership enables the SEC to actively exchange technical resources with 63-member countries, aiming to advance sustainable finance across various financial market segments, including capital markets, institutional investment, and insurance. As part of the SBFN, the SEC gains leverage to contribute to the global discourse on sustainable finance, advocating for its members. The SBFN has been a vital knowledge partner for the G20 Sustainable Finance Working Group, producing research papers that provide cutting-edge insights on the barriers and opportunities in sustainable finance. On a national level, the International Finance Corporation (IFC) works closely with countries to develop sustainable finance policies and voluntary industry principles. The IFC's local teams engage in capacity-building initiatives for banks, regulators, and service providers, supported by their mandate to elevate sustainability standards for financial institutions. Consequently, the SBFN has assisted 33 countries in launching and implementing regulatory policies, guidelines, roadmaps, and voluntary industry-led principles, facilitating global growth and

PUBLIC

implementation of sustainable finance practices.

5.3 Emerging Risks And Mitigating Measures

In view of the investor apathy in the capital market caused by unfavourable macroeconomic conditions and sovereign debt restructuring, the SEC initiated policies to promote a healthy and thriving capital market. This was because the market uncertainties had led to a decline in investor interest in both equity and debt instruments and a continued decline could worsen performance in the equity market and discourage firms from listing on the exchange to raise capital. To mitigate this risk, the SEC encouraged product diversification and development. It engaged the public and market operators on newly issued guidelines such as Real Estate Investment Trusts (REITs) and Private Funds. The SEC also intensified its public education programmes to enhance investor confidence and protection. The capital market education initiative dubbed "Time with the SEC" that took place in Tamale sensitized the public on topics such as understanding the role of the SEC in the capital market and adopting a long-term view on investments.

The SEC relaxed key regulatory requirements in 2022. In 2022, there were concerns regarding the solvency of market operators due to various factors such as the impairment of GoG holdings and lower revenues. The high inflation rate further intensified the risk of insolvency. Thus, the SEC in recognition of the challenging macro environment, relaxed capital requirements and full compliance with certain regulatory requirements for market operators. These initiatives aimed to ease the regulatory requirements imposed on market operators temporarily, allowing them to meet their financial obligations and continue operating smoothly.

The SEC introduced measures to mitigate reputational risk and boost investor confidence. The widespread lack of liquidity, sovereign default, and reduced confidence in the capital markets posed a reputational risk for the SEC and the industry. The SEC implemented measures, such as regular inspections, training, and education to ensure compliance with regulations and governance practices as well as promote public confidence. Also, the SEC continued with work to develop an investor protection fund that will provide a safety net for investors in the event of losses resulting from fraudulent or unethical practices in the securities industry, as well as help restore investor confidence.

The SEC initiated the development of a Risk-Based Supervisory framework in 2022 to enhance supervisory oversight. With support from the African Development Bank, SEC in 2022 commenced the process of developing a Risk-Based Supervisory framework, to transition away from Compliance - Based Supervision. The implementation of the Risk-Based Supervisory framework will promote the culture of risk management and enhance regulatory compliance to ensure investor protection, market integrity, and safeguard financial stability. The project also includes development of a digital regulatory compliance portal, which will greatly accelerate analytics and offsite supervision efforts.

PUBLIC

6 Assessment of the Pensions Industry

6.1 Performance of the Pensions Industry

In 2022, the Pensions Industry's Assets Under Management (AUM) recorded an appreciable growth. The 3-Tier Pension Scheme's AUM at the end of December 2022 stood at GH₵46.6 billion as compared to GH₵39.6 billion recorded in 2021. Thus in 2022, pension funds increased by 17.7 per cent compared to the 18 per cent growth recorded in 2021. The sustained in growth in 2022 is attributable to a rise in contribution inflows resulting from ongoing prosecution of defaulting employers and increased enrolment.

Figure 6.1: AUM Distribution

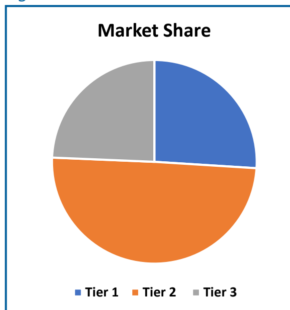
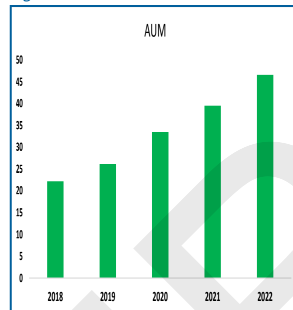


Figure 6.2: Growth of Pension Funds



Source: National Pensions Regulatory Authority

In 2022, private pension funds recorded steady growth and mainly concentrated in fixed income instruments. Total private pension funds grew by 23.1 per cent in 2022 as compared to 27 per cent observed in 2021. The year-end total for private pension funds for 2022 was GH₵34.5 billion, compared to GH₵28.02 billion recorded in 2021 as shown in Figure 6.3. The decline in growth of private pension funds could be linked to a negative nominal return on investments. Investments in private pension funds was still held primarily in government securities (GoG securities and Local Government and Statutory Agencies' securities), constituting a total of 86 per cent as shown in Figure 6.4.

Figure 6.3: Private Pension Funds

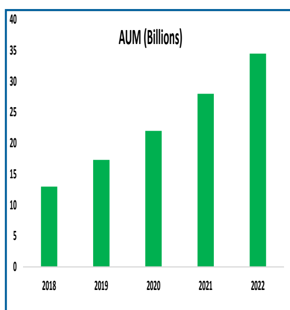
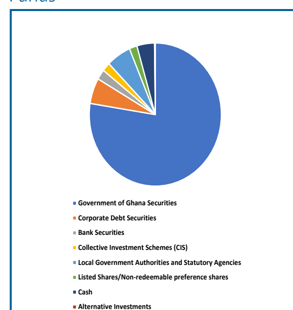


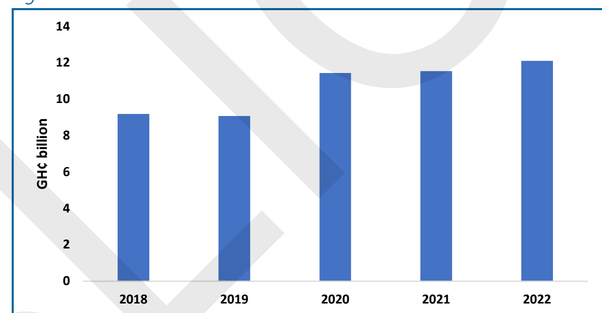
Figure 6.4: Allocation of Private Pension Funds



Source: National Pensions Regulatory Authority

Pension funds under the Basic National Social Security Scheme (BNSSS) recorded a marginal increase. From a total AUM of GH₵11.54 billion in 2021, the year-end AUM for 2022 rose to GH₵12.11 billion. This represented a 5 per cent increase as of December 2022, compared to a one per cent increase as of December 2021. The major risk exposures of the scheme remain the private and public indebtedness to the scheme, increasing benefit pay-out, and the low real rate of investment returns.

Figure 6.5: Public Pensions Fund Tier 1



Source: National Pensions Regulatory Authority

6.2 Regulatory Developments

In the year under review, the NPRA in partnership with industry players and other regulators worked to implement several key initiatives. Some of the key regulatory developments include the following:

The NPRA developed an agile Risk Based Supervision (RBS) framework. The RBS is aimed at automating the NPRA's monitoring and regulatory functions. This automation is to improve the efficiency of obtaining data from regulated entities. As part of the RBS framework, new reporting templates were developed to cover previously identified data gaps and to mitigate potential risk events.

Adoption of Enterprise Risk Management (ERM). The adoption of the ERM has led to the development and establishment of the Risk Register for the pensions industry to identify and mitigate potential risk events before their occurrence.

To ensure compliance, the NPRA prosecuted defaulting employers of Tier 2 pension contributions. The NPRA prosecuted sixty-nine (69) employers who defaulted in paying their Tier 2 contributions. A total amount of GH₵6.4 million was realized.

PUBLIC

6.3 Emerging Risks and Mitigating Measures

The Authority's supervisory approach is focused on a hierarchy of risk priorities, which enables it to identify and address the most critical issues. For 2022, the following risks were identified:

A major emerging risk identified in 2022 was related party issues. This involved potential conflicts of interest and unethical practices. To effectively mitigate this risk, the Authority will focus on strict enforcement of corporate governance guidelines and application of a robust sanctions' regime.

Increase in impairment of pension assets. Most schemes had to make provisions for investment defaults in 2022. The Trustees judgement leading to the provision of impairments needs to be standardized. This will be mitigated by standardising the treatment of impairment according to IFRS9.

Reputational risk from impact of the DDEP. The current economic conditions in the country necessitated a Bond restructuring which triggered liquidity challenges in the industry leading to potential reputational damage. To effectively manage this risk, the NPRA will undertake periodic stakeholder engagements. Additionally, regulatory forbearance measures may be employed to provide temporary relief and ensure minimal disruption.

Government defaulting on Tier 1 and 2 contribution payments. Defaulting in Tiers 1 and 2 contributions by the government has been a major challenge. The Authority will continue to negotiate with Government on the payment of outstanding contributions and timely payment of subsequent contributions to address this issue.

Concentration risk as pension funds heavily invested in GoG Securities. In 2022 it was observed that pension funds heavily invested in GoG securities. As a result, the debt restructuring greatly affected the Funds Invested in that Asset Class. The Authority is undertaking a review of the per issuer limits on all asset classes to reduce schemes investment in GoG securities.

Inflation and Interest rate risk (Reduction in pensioners' purchasing power). The high inflation rate recorded in the second half of 2022 caused a negative return on investments, which affected the economic value of pension assets.

Non-available products under the alternative asset classes. The Authority through its investment guidelines introduced Alternative Investments as part of the asset classes. However, there are very few products to be invested in. Highlights of recent developments are discussed in Box 6.1.

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Box 6.1 - Recent Developments in the Pensions Industry

The Pensions industry remained resilient in the first half of 2023. Despite the effects of unfavorable global and national economic conditions and lingering effect of the COVID-19 pandemic, private pension fund assets rose from GH₵34.5 billion in December 2022 to GH₵37.4 billion as at the end of March 2023. This performance is attributable to increased contribution mobilization through the impact of prosecution of defaulting employers and enhanced industry surveillance.

As at March 2023, the assets available for benefits of the SSNIT-managed Basic National Social Security Scheme (BNSSS) stood at GH₵13.5 billion representing 11.6 per cent growth from the GH₵12.1 billion recorded in December 2022. Similarly, as at March 2023, the total contributions received under the BNSSS amounted to GH₵1.5 billion compared to total benefits paid for the same period as GH₵ 1.3 billion. The BNSSS posted a negative real rate of return of 26.46 per cent at the end of March 2023. These indicators are expected to improve when the rate of default in contribution payments is significantly settled.

The Trust (SSNIT) has intensified its compliance activities aimed at improving pensions coverage especially in the informal sector.

Following the initial exemption of Pension Funds from the Domestic Debt Exchange Programme and the

Box 6.1 - Recent Developments in the Pensions industry continued

subsequent offer of a special bond to pension funds (though pension schemes are yet to accept), pension schemes have witnessed delays in the payment of both coupons and principal amounts.

Regulatory Developments

As at May 2023, the NPRA initiated several key activities for its regulations. The following are the key developments:

The NPRA developed a transitional agile Risk-Based Supervision (RBS) model as part of the SECO phase II project. The RBS is aimed at automating the NPRA's monitoring and regulatory functions. This automation is to improve the efficiency of obtaining data from regulated entities. As part of the transitional RBS model, new reporting templates were developed and issued to the industry which the industry has been reporting on since May 2023.

Adoption of Enterprise Risk Management (ERM). The adoption of the ERM has led to the development and automation of a Risk Register for the pensions industry to aid in identifying and mitigating potential risk events before their occurrence.

To ensure compliance, the NPRA prosecuted defaulting employers of Tier 2 pension contributions. As at March 2023, a recovery of GH₵15,015,025.58 was realized from eighty-nine (89) defaulting employers. The Authority's supervisory approach is focused on a hierarchy of risk priorities, which enables it to identify and address the most critical issues. For January to May 2023, the following risks were identified:

Government defaulting on Tier 1 and 2 contribution payments. Government continues to delay in payments of Tiers 1 and 2 contributions. As at June-end 2023, contributions for the period October 2022 to May 2023were outstanding. Even though some payment was received in March 2023, it covered the period up to September 2022. The Authority will continue to negotiate with Government on the payment of outstanding contributions and timely payment of subsequent contributions to address this issue.

PUBLIC

7 Assessment of the Resilience of the Financial Sector

7.1 Stress Tests of the Banking Industry

The banking sector commands over 70 per cent of the financial sector's assets size and remains heavily interconnected with the securities, insurance and pensions sectors. Thus, the stability of the banking sector remains critical in preserving financial system stability in Ghana. Given that the resilience of the financial sector relates to the capacity of the financial system to absorb shocks while it continues to undertake its core mandate, our assessment of the resilience of the financial system usually focuses on tail events/ shocks to the banking sector. Stress tests of the banking sector were periodically undertaken throughout the year to assess the impact of plausible shocks on banks. These included the assessments of credit risk, exchange risk, interest rate risk, and liquidity risks in the stress tests undertaken. However, the announcement of the Domestic Debt Exchange Programme (DDEP) in December 2022 saw the crystallisation of a major shock (the DDEP) on the financial sector.

We, accordingly in this chapter, focus on the sovereign risk stress test assessments on banks prior to the implementation of the DDEP based on the terms of the 2nd Amended and Restated Exchange Memorandum and data obtained from banks on their holdings in government bonds as at December 2022. This is done in the context of the regulatory reliefs provided by the Central Bank to cushion the banking sector from the potential impact of the DDEP. We then discuss on-going support to help strengthen the resilience of the financial sector and preserve financial stability.

7.1.1 Sovereign Risk Stress Test on Banks' Participation in the DDEP

Ghana's rising sovereign debt and credit rating downgrades in 2022 heightened financial sector risks due to the level of holdings of sovereign debt by financial institutions. The announcement by the GoG to restructure its domestic debt through the DDEP therefore had implications for the financial sector. This involved the exchange of existing GoG bonds for new GoG bonds with reduced coupon rates, extended maturities and moratorium on principal repayments. Specifically, bonds maturing in 2023 were exchanged with seven (7) new bonds maturing from 2027 to 2033, while bonds maturing post-2023 were exchanged with twelve (12) new bonds maturing from 2027 to 2038.

Banks' holding of GoG bonds restructured under the DDEP was estimated at GH₵48.4 billion, representing 58.3 per cent of the total restructured bonds of GH₵83.0 billion. As noted earlier, all 23 banks participated in the debt exchange announced in February 2023. Prior to the implementation of the DDEP, the Bank of Ghana carried out sovereign risk stress tests to assess the potential impact of the debt exchange on banks. The stress test assessments showed that the DDEP would lead to impairment losses on investment in government securities and create solvency challenges for some banks. The impairment losses resulted from the moratorium on principal payment, extended maturity profile of the restructured bonds and the reduced coupons on the new bonds. The sovereign stress test results revealed that at a 15.6 per cent discount rate[1] in discounting the cashflows under the restructured terms, about twelve (12) banks could potentially breach the CAR threshold of 13.0 per cent post-DDEP. These sovereign risk assessments were based on the bonds identified in the debt restructuring perimeter as announced by Government.

The Bank of Ghana and other financial sector regulators instituted regulatory reliefs to cushion the banks and other regulated institutions from the full impact of the DDEP. These reliefs included the use of flexibilities within existing prudential frameworks to reduce regulatory capital requirements and accommodate capital and liquidity shortfalls, as well as temporary forbearance to allow institutions recapitalise in an orderly manner. In addition to the regulatory reliefs, regulators worked with auditing firms to provide a standardized approach to the accounting treatment of the new bonds. The Financial Stability Council is also working closely with GOG to set up the Ghana Financial Stability Fund to provide liquidity and solvency backstop to financial institutions that participated in the DDEP.

Some of the raft of regulatory reliefs implemented for banks were as follows:

a. reduction of capital conservation buffer from 3 per cent to zero, thereby reducing the capital adequacy ratio from 13 per cent to 10 per cent;
b. derecognition losses emanating from the DDEP to be spread equally over a period of four (4) years for the purposes of CAR computation;
c. banks have maximum of three years to restore their minimum paid-up capital;

[1] *The Institute of Chartered Accountants Ghana (ICAG) provided a range of 15.6% - 21% for use in discounting the future cashflows from the restructured bonds*

PUBLIC

d. increase in Tier II component of regulatory capital from 2 per cent to 3 per cent of Total Risk Weighted Assets;
e. reduction of minimum Common Equity Tier 1 capital from 6.5 per cent to 5.5 per cent of total Risk Weighted Assets (RWA);
f. increase in allowable portion of property revaluation gains for Tier II capital computation from 50 per cent to 60 per cent; and
g. risk-weights attached to new bonds to be set at 0 per cent for CAR computation and at 100 per cent for old bonds.

Similar regulatory reliefs and forbearances were put in place by the National Insurance Commission (NIC) and the Securities and Exchange Commission (SEC) to help cushion institutions that participated in the DDEP in the insurance and securities sectors.

The publication of the audited results of banks for 2022 showed the impairment losses that banks incurred from the DDEP. An assessment of the financial results indicated that thirteen (13) banks recorded CAR below 13 per cent, with a solvency shortfall of GH₵9.64 billion as at December 2022. The industry CAR, adjusted for by the regulatory reliefs, was 16.20 per cent as at end of 2022, while the unadjusted CAR was below the revised threshold of 10.0 per cent, without the application of the regulatory reliefs.

Given that the reliefs provided by the Bank of Ghana are temporary, banks have been directed to submit recapitalization plans to address capital shortfalls over the next three years. In addition, the BOG has placed banks below the solvency thresholds on enhanced supervision including suspension of the payment of dividends until further notice. Banks with capital shortfalls are also restricted from excessive risk-taking and from making certain capital expenditures. The BOG continues to assess impacts on a regular basis with focus on detecting and addressing emerging risks to safeguard financial stability.

The Ministry of Finance in collaboration with the Bank of Ghana and other financial sector regulators have developed a Financial Sector Strengthening Strategy (FSSS) as part of the IMF requirements under the ECF programme. The FSSS sets out measures being taken by regulatory authorities and GoG to preserve financial stability following the Government debt restructuring exercise. It among others, details the impact of the DDEP on the financial sector and expected additional losses from the restructuring of cocoa bills, locally issued USD denominated bonds. It also presents an assessment of the financial condition and recovery and recapitalisation prospects of each sub-sector in line with existing prudential frameworks and outlines regulatory and supervisory measures put in place by the regulators to address risks to financial stability. It also highlights the proposed structure, eligibility requirements and governance arrangements for the proposed GFSF to help rebuild capital buffers, safeguard financial stability, and promote public confidence in the financial system.

As explained in Chapter 3, half year financial results based on prudential returns from banks shows that the banking sector has returned to profitability. Sovereign stress tests on the recently announced restructuring of the cocoa bills and locally issued USD denominated bonds reveals that the banking sector will be able to absorb these shocks. However, the establishment of the GFSF will be an important safety net to support the resilience of the banking and financial sector going forward. Preserving financial stability remains the priority of Bank of Ghana and other financial sector regulators and regulatory measures and policy coordination will continue to be deployed to support the recovery of the sector from the DDEP shock and return the sector to a strong solid path.

7.2 Assessment of Capital Market Resilience

Assessment of the equities market focusses on the performance of the Ghana Stock Exchange (GSE) using the Stock Market Performance Index (SMPI). The Stock Market Performance Index (SMPI) captures four dimensions of the GSE performance: – access, size, efficiency, and stability of the market. These indices provide a broader view of the status of the bourse and help identify potential risks that may arise on the market. An Exchange with increasing size, efficiency and stability will broadly be more resilient to shocks.

The size dimension of the SMPI improved in the year under review. The size dimension of the stock market captures the resource mobilization potential of the market. At end-December 2022, the index for the size dimension increased to 0.18 from 0.14 at end-December 2021. The improvement was driven by increases in the turnover ratio and the total value of stocks traded to GDP. However, the total market capitalization to GDP declined.

The access dimension of the SMPI improved in 2022. The access dimension captures market concentration and is measured by the Herfindahl- Hirschman Index (HHI), the share of the largest ten firms in terms of total market capitalization and the share of top ten firms in terms of total trading volumes. At end-December 2022, the index for the access dimension, increased to 0.29 from 0.27 in end-December 2021. The increase in the index was on the back of a decline in market concentration. The HHI and the share of the largest ten

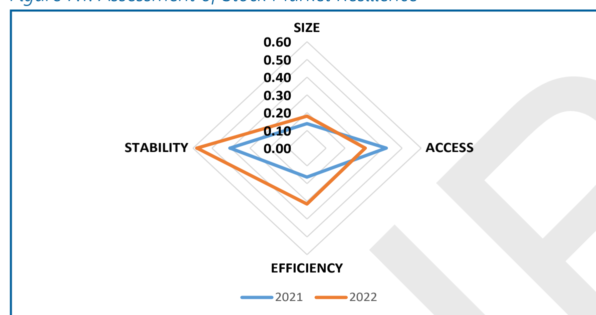
PUBLIC

firms in terms of total market capitalization decreased by 7.43 per cent and 1.22 per cent respectively.

The stock market was more efficient in the review year. The percentage of shares with zero returns is used to measure pricing efficiency on the bourse. At end-December 2022, the index for the efficiency dimension increased to 0.31 from 0.16 in the previous year. The improved efficiency reflects the decrease in the percentage of shares with zero returns, which reduced to 29.03 per cent at end-December 2022, from 41.44 per cent at end December 2021.

The stability dimension of the stock market increased in 2022. Stability is measured by the price to earnings ratio, price volatility index and the percentage of stocks with negative returns. At end December 2022, the index of the stability dimension increased to 0.58 from 0.40 at end December 2021. The improvement in the stability index was on account of an increase in price to earnings ratio by 44.56, complemented by a decrease in the volatility indicator by 0.54 per cent.

Figure 7.1: Assessment of Stock Market Resilience

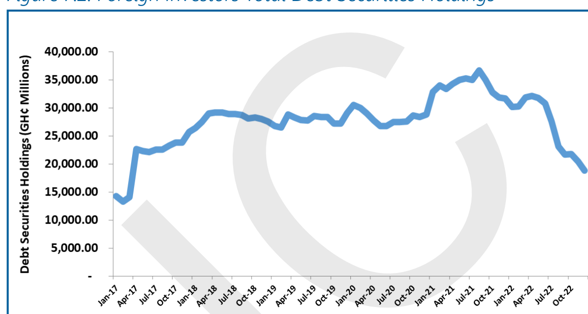


Source: Ghana Stock Exchange

7.2.1 Risk of Capital Flight

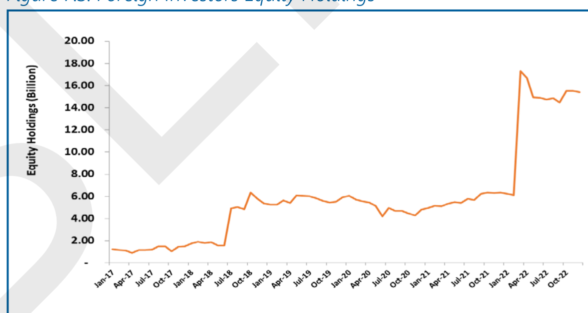
For the period under review, foreign investors increased equity holdings and reduced their holdings in debt instruments. Foreign investors debt holdings decreased to GH₵18.70 billion at end-December 2022, from GH₵31.7 billion at end-December 2021, indicative of their responses to the sovereign downgrade and the expected impact of the DDEP. However, the value of foreign investors' equity holdings increased to GH₵15.43 billion at end-December 2022 from GH₵6.32 billion at end-December 2021. The uptick in foreign investors' equity holdings is attributable to the transfer of MTN Ghana's shares to the Ghana Central Securities Depository. These shares were initially registered with a depository in South Africa.

Figure 7.2: Foreign Investors Total Debt Securities Holdings



Source: Central Securities Depository

Figure 7.3: Foreign Investors Equity Holdings



Source: Central Securities Depository

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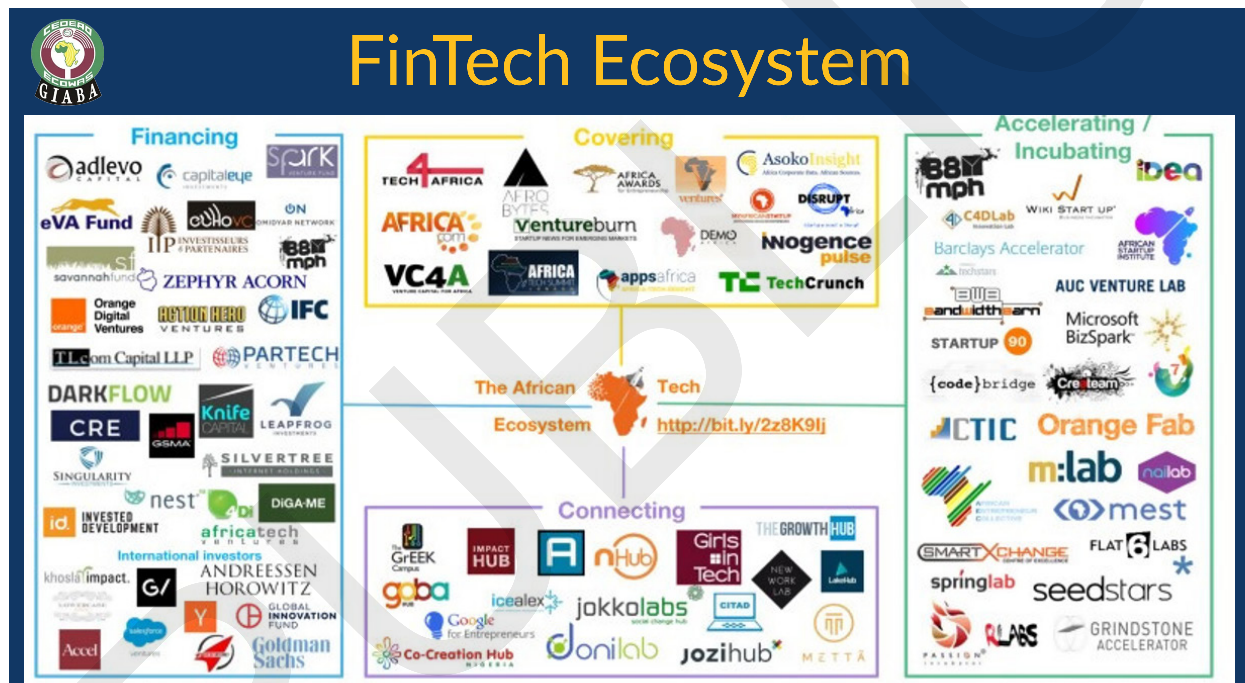
8 Special Features

8.1 Strengthening AML/CFT & P Supervision in Financial Technology (FinTech) Companies[2]

8.1.1 Overview Of Financial Technology (FinTech)

Financial technology (FinTech) has become a major feature shaping the structure of the financial industry. FinTech refers to the fusion of new and emerging technologies with financial services leading to the development of smarter financial solutions. The increasing presence of FinTech reflects the ongoing digital evolution which enables more effective and efficient delivery of financial services, far better than the traditional means of providing such services. Innovative digital technology applications for financial services, or FinTech, are being used to alter the interface between consumers and service providers. They are also helping to improve engagement and communication with consumers (OECD, 2020). Today, FinTech is emerging as a technological enabler in all the regions, bolstering financial inclusion and catalysing innovation in other sectors, such as agriculture and infrastructure.



FinTech may carry significant gains for financial inclusion and deepening by improving the level of efficiency of the financial sector. FinTech provides avenues to extend access to credit as innovative technologies help overcome information barriers and lower the cost of cross-border transfers. Pressures on correspondent banking relationships could be partly remedied using innovative technologies if the new systems can satisfy requirements of anti-money laundering and the financing of terrorism. Furthermore, whereas the current technologies are still facing several challenges, such as scalability and high energy consumption, future distributed ledger technologies could enhance efficiency, security, and transparency of payment systems in Sub-Saharan Africa, thus lowering trading costs.

Countries in the sub-Sahara region can leverage the activities of FinTechs to foster inclusive economic growth and development. In sub-Saharan Africa, the recent technologies being developed and implemented have the potential to change the competitive landscape in the financial sector to promote inclusive growth. Particularly, given the lower levels of financial inclusion, bank competition, and macro-financial linkages in sub-Saharan Africa relative to other regions, countries could potentially benefit from the opportunities presented by FinTechs to foster inclusive economic growth and development. It is imperative however to balance the trade-off between the benefits that FinTech technologies may generate and the potential added risks and vulnerabilities.

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[2] *Article produced by the Financial Intelligence Center (FIC)*

8.1.2 Money Laundering /Terrorism Financing (ML/TF) Risks Associated With FinTech

In the banking sector, the evolution of FinTechs introduced new vulnerabilities especially in the area of ML/TF. Fintechs popularly deployed in the banking sector include internet banking, card and mobile banking. Although these innovations challenge traditional structures and create efficiency gains by opening the financial services value chain, they introduce new challenges. These digital methods often entail depersonalized banking, contactless digital cards, mobile finance and QR codes, which are more prone to ML/TF risks. Potential ML/TF risks associated with FinTech operations include:

a. Customer identification: The virtual platform deployed by FinTechs creates anonymity which is a major potential risk in the identification of customers. Criminals can take advantage of the digital platforms to create false identity and carry out illegal activities.

b. Speed and volume of transactions: The high volumes and speed at which FinTech transactions are concluded can serve as enablers for money laundering and other financial crimes. Without adequate regulation and supervision, FinTech products may become a tool in the hands of criminals.

c. Weak regulations and supervision: The speed of digital innovations have outpaced regulation and supervision of the FinTech space. One of the looming risks is the inability of regulators to effectively monitor and supervise cross border transactions. The nature of FinTech services makes it easier to carry out transactions across borders in minutes. Unfortunately, public authorities across countries do not collaborate at the same speed. Criminals are fully aware of this fact and do take full advantage of this weakness.

8.1.3 Recommendations to Address Potential ML/TF Risks within Fintechs

To address the potential risks, the Financial Action Task Force (FATF) recommendations provide a complete set of AML/CFT&P measures. These recommendations require countries to ensure that financial institutions and other intermediaries are subject to adequate regulation and supervision, and are effectively implementing the appropriate laid down procedures and policies.

The regulatory and supervisory measures for FinTechs should be multifaceted and consistent with the FATF Core Principles. Regulators should ensure that all types of FinTech operations and businesses are licensed, appropriately regulated, and subjected to supervision for anti-money laundering purposes. At a minimum, FinTech businesses providing services of money or value transfer, or of money or currency changing, should be licensed. Such businesses are also to be subjected to effective monitoring to ensure compliance with national requirements on combating money laundering and terrorist financing. Additionally, legal and regulatory measures should aim at preventing criminals or their associates from holding controlling interest, being a beneficial owner, or playing a managerial role in a FinTech business.

Authorities could leverage on technologies and innovation to enhance AML/CFT compliance in the FinTech space. Lead members of the AML/CFT global network have commented on the need to embrace new technology to effectively manage money laundering and financial crime risk as prescribed for in the FATF Standard (Recommendation 15). Deploying the latest technologies in financial crime compliance solutions can reduce manual review requirements, minimize the occurrence of false positives, and streamline the regulatory reporting process.

FinTech institutions should put in place effective customer identification systems. FinTechs are required to ensure that potential customers are trustworthy. In this regard, they are expected to implement effective Customer Due Diligence (CDD) systems to manage and protect their operations against criminals, terrorists, and Politically Exposed Persons (PEPs) who might present a risk.

In conclusion, policy measures need to reap the potential benefits of FinTechs while managing associated risks. Financial technologies hold great prospects for the deepening of the financial sector and widening access to financial services. However, some digital financial products such as cryptocurrencies have high risk potential for ML/TF. An effective risk-based regulation and governance framework is required to ensure that the potential risks are contained. Also, there is the need to increase the pace of regulation to address risks associated with the fast-moving innovation of FinTech businesses. Additionally, policymakers should look beyond the potential benefits of FinTechs in the financial sector, but also consider the possible impact on employment and productivity, the digital economy, and more broadly, the scope for much needed structural transformation.

8.2 Dealing With Moral Hazard In Deposit Insurance Practice

8.2.1 Overview Of Deposit Insurance Practice

A well-designed deposit insurance scheme within the financial safety net is essential to ensure smooth-functioning and confidence in the financial system.

PUBLIC

Conversely, a poorly designed deposit insurance scheme could create moral hazard issues where financial institutions engage in excessive risk taking. A financial safety net is a framework designed by governments to either prevent bank failures or minimize the adverse effects of such failures if and when they occur. Ghana's banking sector safety net framework includes a well-functioning prudential regulation and supervision, resolution regime, lender of last resort and deposit insurance scheme. The Ghana Deposit Protection Corporation manages the deposit insurance scheme while the BoG handles the first three pillars of the banking sector safety net framework.

8.2.2 Understanding Moral Hazard From Various Perspectives

Moral hazard is a concern for all safety-net participants; therefore, deposit insurance schemes need to be designed to limit the risk-taking abilities of insured stakeholders. Experience has shown that deposit insurance and blanket guarantees generally, have created incentives for stakeholders, including depositors, other creditors, shareholders, bank managers, and directors, to limit risk-taking due to associated indirect costs.

Generally, the concept of moral hazard can be viewed from different perspectives;

General Definition: According to the International Association of Deposit Insurers (IADI), moral hazard is the tendency of a party to take risks with the belief that they will not have to bear the consequences of their actions. Moral hazard also refers to the situation that arises when an individual or entity has the chance to take advantage of a financial deal or situation, knowing that all the risks and fallout will land on another party. It means that one party is open to the option – and therefore the temptation – of taking advantage of another party. In this case, the secondary party is the one that suffers all the consequences of any risks taken in a moral hazard situation, leaving the first party free to do as they please, without fear of responsibility. They are able to ignore all moral implications and act in a way that is most beneficial to them.

The Perspective of a Deposit Insurance: The deposit insurance defines moral hazard as the incentive for banks or depositors to take excessive risks because they know that any negative impact of their actions will be mitigated by the deposit insurer's protection.

The Perspective of a Bank: Banks define moral hazard as the incentive for increased risk taking by insured institutions when they know that they are protected from losses, or when they believe that an insured institution will not be allowed to fail. In the absence of regulatory or other restraints, insured institutions have an incentive to use lower-cost insured deposits to undertake higher-risk projects than would otherwise be optimal. Unless effective steps are taken to curtail moral hazard, excessive risk taking can lead to misallocation of economic resources and increased losses to the deposit insurer or taxpayer.

The Perspective of a Depositor: From the perspective of depositors, moral hazard can occur when depositors and other creditors believe that all their deposits are fully protected by the deposit insurer when their bank or SDI fails. The depositor or creditor does not conduct the necessary due diligence before making placements with a bank or SDI.

8.2.3 Dealing With Moral Hazard

Public policy objectives and country-specific factors influence policy makers' approach to mitigating moral hazard. Globally, the methods used by policy makers for mitigating moral hazard include the design features of the deposit insurance systems, strong corporate governance and risk management, prudential supervision and regulation. Other factors include market discipline exercised by depositors, creditors' covenants and shareholders activities. However, each of these methods has potential advantages and disadvantages. Many countries utilize elements of all methods, as they are considered most effective when used together.

→ **Deposit Insurance System Design Features**

Empirical evidence suggests that a well-designed deposit insurance scheme significantly minimizes moral hazard and contributes to financial stability. These key design features include placing limits on the amounts insured, excluding certain categories of deposits and depositors from coverage and implementation of risk-adjusted or differential premium systems. For instance, the Ghana Deposit Protection Act, 2016 (Act 931) as amended by the Ghana Deposit Protection Amendment Act, 2018 (Act 968) (GDP Act) places limits on the amount insured per bank depositor to GH₵6,250 and GH₵1,250 per SDI depositor. Though these limits cover the majority of depositors in the financial system, they expose a substantial amount of deposits to the risk of loss in the event of a bank failure. This therefore provides motivation for holders of uninsured deposits to shift funds to institutions believed to be safe thereby ensuring market discipline. A similar effect is achieved by excluding from coverage, funds held by depositors capable of monitoring the performance of their institutions. These include deposits held by banks, insurance companies, pension funds, collective investment schemes as stated in Section 13 of the GDP Act.

Determining the optimal coverage for deposit insurance can be quite challenging. On the one hand, the amounts covered must be high enough to prevent bank runs, but on the other hand, too extensive a coverage can reduce effective market discipline. As a general rule for appropriate limits for deposit insurance, IADI recommends coverage per person that is roughly one or two-times per capita GDP.

Charging banks risk-adjusted premiums is another way to alleviate moral hazard. The ability to assess risk-adjusted or differential deposit insurance premiums can be an effective tool for imposing discipline on insured institutions. When deposit insurance assessments are based on a flat rate, insured institutions have an incentive to increase their portfolio risk while incurring little or no additional insurance expense. However, if premiums are linked to risk or other differential measures, the added cost of deposit insurance may deter excessive risk taking and help mitigate moral hazard. In the light of the above, section 16 of the GDPC Act has provided for the Corporation to charge premiums on the basis of an assessed risk level of a member of the Scheme. GDPC has started developing the framework for the implementation and rollout of risk based premium.

→ Good corporate governance and risk management

Good corporate governance is very important for effective functioning of financial institutions. Corporate governance is the set of relationships between a financial institution's board of directors, management, shareholders and other stakeholders, including the institution's regulators, supervisors and, in some cases, the deposit insurer. Good corporate governance and sound risk management practices help to assure stakeholders, that the business strategies of financial institutions are consistent with safe-and-sound operations, and thus can act as the first line of defense against excessive risk taking or moral hazard. In jurisdictions such as Nigeria, United States of America, Indonesia etc., the deposit insurance system has a Risk Minimizer Mandate. In this case, the deposit insurer can help mitigate moral hazard by creating and promoting incentives for good corporate governance and management of insured institutions. For example, the Federal Deposit Insurance Corporation (FDIC) has issued several directives and guidelines on corporate governance and also undertaken compliance examinations to ensure adherence by FDIC supervised institutions.

In Ghana, the GDPC is a Paybox, a mandate which only allows the Corporation to reimburse insured depositor upon failure of their bank or SDI. The BoG is therefore responsible for promoting incentives for good corporate governance to help mitigate excessive risk taking by banks and SDIs. The BoG, in December 2018, issued the Corporate Governance Directive for Banks and SDIs. The Corporate Governance Disclosure Directive was also issued in 2022 to ensure that banks adopt sound governance practices in their operations. A number of key areas addressed by these directives include board qualification and composition, role and responsibilities of the board, BOG intervention in appointments, the nature and operations of board committees, independent directors, related party transactions, tenure of board members and CEOs, fit and proper persons etc.

→ Prudential regulation and supervision

Prudential regulation and supervision are designed to control excessive risk taking by insured institutions and ensure that they operate in a safe and sound manner. Prudential regulation and supervision may be undertaken either by the Deposit Insurance Scheme or the Central Bank based on the design and legal framework of the jurisdiction. Many regulatory and supervisory requirements have significant implications for controlling moral hazard. The ability to intervene early and to enforce prompt corrective action is an important regulatory tool, especially in light of the potential destabilising effects of the failure of a large-institution on the deposit insurer, the financial system and the economy as a whole.

Mandatory minimum capital requirements can be a powerful means of controlling moral hazard. Minimum capital requirements work to absorb losses and instill discipline from shareholders. This is because owners have a greater stake in the sound operations of the institution if they have substantial equity at risk. Other regulatory safeguards that work to prevent unsafe-and-unsound banking practices can also mitigate moral hazard. The Bank of Ghana has over the years strengthened the minimum paid-up capital requirements for banks to GH₵ 400 million presently. This is to ensure that owners have enough funds in regulated financial institutions to absorb unexpected losses and instill discipline. The capital adequacy ratio also ensures that regulated financial institutions provide enough capital proportionate to the risk being taken by the institutions.

→ Market discipline

Market discipline occurs when, given appropriate incentives, the reaction of stakeholders to market forces acts to curtail excessive risk taking. As an insured institution becomes troubled and approaches failure, efforts by uninsured depositors, other unsecured creditors, and shareholders to limit their loss exposure can generate market signals about the riskiness of the institution. For example, uninsured depositors may shift funds from institutions perceived

PUBLIC

to be unsound to those perceived to be sound, and unsecured creditors and shareholders may look to sell their interests in troubled institutions. Changes in the interest rates offered by riskier institutions and in the prices of their publicly traded securities provide signals to the market about the perceived riskiness of the bank. Whether such market signals provide an accurate assessment of risk will depend largely on whether stakeholders have access to accurate and relevant information on the condition and performance of insured institutions. This, in turn, requires strong accounting and disclosure regimes that ensure accurate and consistent information on risk is available to the public. In Ghana, the IFRS has been adopted by the financial sector to ensure adequate disclosure and transparency.

→ **Cooperation and information sharing among financial safety-net participants.**

To mitigate moral hazard, there should be a formal and comprehensive framework in place to ensure the efficient sharing of information among financial safety-net participants. This will be aimed at providing a close coordination of activities and information sharing, on an ongoing basis, between the deposit insurer and other financial safety-net participants. Both the GDP Act and the Bank and Specialized deposit taking institutions Act provide for coordination and information sharing. Information sharing is further enhanced by the memorandum of understanding between GDPC and BoG.

8.2.4 Conclusion

It has been established that a well-designed deposit insurance scheme contributes to enhancing depositor confidence, prevents bank runs and promotes financial stability. However, it may come with an unintended consequence of encouraging banks and SDIs to take on excessive risk. Evidence from the practice points out the importance of design features and shows that poorly designed schemes can increase the likelihood that a country will experience a banking crisis. It is important for deposit insurance schemes to incorporate features to help internalize risk-taking by banks. GDPC will continue to ensure that its main objective of protecting depositors from potential losses as a result of the occurrence of an insured event is achieved, while ensuring that moral hazard is mitigated.

8.3 Promoting Responsible Lending Through an Effective Collateral Registry System

The Ghana Collateral Registry serves as an important infrastructure in Ghana's credit market by promoting transparency in secured transactions. Generally, lenders are exposed to credit risks in their credit delivery process and efficient collateralised lending is one of the ways to mitigate credit risk. The implementation of the amended Borrowers and Lenders Act, 2020 (Act 1052), has expanded the definition of a lender to include persons who advance credit. As a result, individuals who advance credit could now benefit from the services of the Collateral Registry by registering their security interest in a collateral against credit facilities.

The Bank of Ghana through the application of various provisions of Act 1052 is making enforcement of security interest less cumbersome. The collateral registry facilitates the loan recovery process by issuing a certificate known as the Memorandum of No Objection to lenders after all the necessary requirements have been met. This certificate enables lenders to realise their interest in collateral without initiating court proceedings. Under Act 1052, a lender shall realise a collateral by auction, public tender, private sale or any other method provided for in the credit agreement.

The Bank of Ghana has intensified supervisory oversight through imposition of sanctions to control delays in the release of collateral after the borrower has fully settled the facility. One of the emerging risks in the collateral registry space is the risk of borrowers being denied credit because lenders failed to release their collateral after borrowers have settled their debt. Normally, information obtained by lenders through search report could indicate that collateral is encumbered though the borrower has settled their obligation. This is primarily because some lenders fail to discharge registrations of borrowers after the repayment of loans granted.

A stakeholder committee made of Bank of Ghana, Lands Registry, Driver and Vehicle Licensing Authority and Companies Registry has been formed to develop measures aimed at data harmonisation among registries. Section 7 of Act 1052 specifies that a security interest in property **shall not** operate as a transfer of title from the borrower to the lender. Consequently, the Bank of Ghana has directed regulated financial institutions in a notice to desist from the practice of changing ownership of collateral into their name. This provision, however, poses a risk to regulated financial institutions as borrowers could dispose of the collateral without the knowledge of the lender. A typical example is where a borrower sells a vehicle that he or she has pledged as collateral to a third party without notifying the financial institution. The harmonisation of registries will enhance collateral management.

The Bank of Ghana has generally intensified its sensitisation on the collateral registry system to enhance usage. As part of due diligence, lending institutions are required to conduct searches at

the various registries to verify the status of assets presented as collateral by the borrower. This provide lenders with vital collateral information including value of collateral, type of collateral, asset owner, security interest information (extent of encumbrance), and borrower information. The failure of lenders to conduct searches on assets pledged as collateral risk not knowing the status of an asset that has already been pledged as collateral with other lenders. Also, lenders that fail to register their security interest risk losing their priority in collateral to other lenders that have registered their interests in the same collateral in case of default. To address this risk, the Bank of Ghana continues to sensitise lenders to register their security interest in order not to lose their priority.

8.4 Fostering Regional Cooperation On Financial Stability Issues

8.4.1 Key Learning Points from the Financial Stability Institute (FSI)-organised Cross-Border Crisis Simulation Exercise

The Bank of Ghana (BoG) and the Ghana Deposit Protection Corporation (GDPC) participated in a cross-border Crisis Simulation Exercise (CSE) during the review period. The CSE, which was organized by the Financial Stability Institute (FSI) of the Bank for International Settlement (BIS), with support from Oliver Wyman, was undertaken in collaboration with financial authorities across seven (7) other African countries (Botswana, Eswatini, Kenya, Lesotho, Namibia, Nigeria and South Africa). The preparation for the CSE commenced in February 2022 with the actual exercise undertaken during February 2023.

The purpose of the CSE was to test the effectiveness of crisis management frameworks as well as cooperation arrangements across jurisdictions in dealing with a systemically important regional bank whose parent was facing severe challenges. The design of the 3-day exercise was to trigger discussions and decision-making within each country and across borders. The exercise was based on a fictional scenario of a parent bank, Cape Bank S. A. with subsidiaries across the participating African countries, facing severe asset quality, solvency and liquidity challenges. These were impacted by a global recession which had severe consequences on most Sub-Saharan African countries. Subsidiaries in Kenya, Nigeria and Ghana also had challenges from the global downturn in sectors such as tourism, oil and gas, agriculture and mining while subsidiaries in other jurisdictions were hit with similar difficulties. The Namibian subsidiary, which handles back office operations across the Group, had its data infrastructure destroyed by a severe storm that affected its IT hub. In the case of Cape Bank Ghana (CB GH), there were issues with rising non-performing loans (NPLs) and liquidity challenges emanating from concerns about the parent bank and the Group. The simulation was divided into three rounds, each of which represented a phase in a stylised crisis continuum designed to trigger the following discussions:

a. Day 1

Day 1 focused on recovery attempts against a background of increasing capital and liquidity stresses. The aim in this round was to provide a view on recovery measures, engage with the bank and launch measures to address uncertainties related to the balance sheet such as stress tests, on-site inspection and adopt other potential measures (e.g., funding safeguards, restrictions on cross border liquidity flows, etc.).

b. Day 2

Day 2 centred on the need to take decisions on interventions such as the implementation of measures to keep the bank liquid, while considering side effects of any such decisions on the resolvability of the bank, fiscal risk and cost. In this round also, participating countries were expected to assess the non-viability or insolvency triggers, and whether to put the local entity into resolution or insolvency and in addition engage in preparatory work in anticipation of the likely need to manage the Group's failure.

c. Day 3

Day 3 focused on the implementation of a resolution or liquidation or equivalent local regimes. Participating countries were expected to define specific resolution or insolvency measures (asset transfers, pay out of deposits, burden sharing with private sector), and discuss main aspects of operationalisation (interacting with investors).

Participating countries were expected to coordinate with domestic and cross border authorities as well as define communication strategy with key stakeholders throughout the exercise.

Key Learning Points from the Exercise

- Delay in Granting Emergency Liquidity Assistance: Some Authorities were stuck on obtaining a parent company guarantee from a parent that was itself facing a crisis, as well as ensuring that local subsidiaries met solvency regulatory thresholds. Accordingly, it was recommended that Authorities review their Emergency Liquidity Assistance frameworks to ensure some flexibility when faced with such situations, should they arise in real life, particularly the request for the parent guarantee. One proposal was to make the requirement for the parent company guarantee to be at Management's discretion to accommodate

PUBLIC

cases where such guarantees are worthless.

- Crisis Management Plan: Authorities were encouraged to put in place and document a comprehensive Crisis Management Plan to guide the process in case such a crisis occurs.
- Periodically Organised Crisis Simulation: There is the need to conduct periodic crisis simulation exercises to better prepare Regulatory Authorities for cross-border crises. Such simulation exercises would also enable staff appreciate the roles played by various stakeholders and equip the Bank to effectively deal with such crises in future.
- Recovery Plans for RFIs: There is the need for Regulated Financial Institutions (RFIs) to have their own recovery plans that are regularly tested to ensure that they are prepared for any real adverse situation.
- Cross-Border Information Sharing: It emerged that some Authorities did not have cooperation agreements with other participating regulators in the region. It was therefore recommended that Authorities put in place standard cooperation agreements with regulators of parent banks/ institutions with subsidiaries in Ghana.
- Need to Operationalise MOU with GDPC: This is to help deepen collaboration between Supervisory Departments, Resolution Office and the GDPC regarding the resolution of failing banks and SDIs. Also, GDPC where feasible, should sign MOUs with other Deposit Insurers of jurisdictions of all foreign banks with subsidiaries in Ghana. This will broadly help facilitate peer to peer learning experiences for the GDPC.
- Resolution Fund: Although not a regular feature of public sector safety net, resolution fund that is funded ex-ante by industry players could help in the timely resolution of failing/ failed institutions. But more importantly, there is the need to expand the mandate of the GDPC to allow it to participate in other resolution options other than a pay-out as those options tend to be less disruptive and better for financial stability.
- Communication Strategy Required: There is the need for Communication to be an integral part of any crisis management system, so as to manage public agitation and minimise its ramifications on depositors and bank customers. The communication strategy should be developed with both GDPC and Ministry of Finance to ensure its effectiveness.
- Importance of Early Engagement with Foreign Counterparties: The exercise revealed that a cross-border intervention framework should trigger early conversations with external regulators and counterparties.

The CSE was useful and relevant in view of the growing presence of regional banks in Africa. Two key questions that the Exercise sought to answer were: how effective were countries' crisis management frameworks; and were authorities across the region able to coordinate in resolving cross-border financial crises? To some extent the first objective was not fully achieved and revealed some challenges in the existing crisis preparedness frameworks. As stated, the objective of salvaging some local subsidiaries was made a bit difficult because existing tools were found to be inadequate, as emergency liquidity assistance could not be advanced as stated earlier. The second objective of cooperation to resolve the troubled regional banking group was somehow inconclusive. Financial regulators, through the College of Supervisors, gave the go-ahead to shareholders of the Group to decide which option they preferred, and they opted for Globe Bank to acquire the entire Group with all the subsidiaries. Some regulators seem to favour alternative acquisition offers rather than that of Globe Bank and required further discussion and negotiations. In all, it was a very useful exercise and the useful lessons learned will be leveraged on to strengthen cross-border financial stability within the African region.

8.4.2 Financial Stability Board's Regional Consultative Group for Sub-Saharan Africa (FSB RCG-SSA) Meetings

To strengthen cooperation on regional financial stability issues across Sub-Saharan Africa, the Bank of Ghana hosted the Financial Stability Board's Regional Consultative Group for Sub-Saharan Africa (FSB RCG-SSA) Meeting. The meeting was held in Accra in June 2022, the first in-person meeting since the COVID-19 outbreak in 2020. The meeting provided an update of the FSB's 2022 work programme, an assessment of the economic recovery path following the onset of the pandemic, and an evaluation of emerging vulnerabilities in the region including rising sovereign debt and inflation. Discussions also centred on key priority areas for SSA such as climate-related financial risks, cross-border payments, and crypto-assets.

The Bank of Ghana participated in the meetings of the FSB RCG SSA in Diani, Ukunda, hosted by the Central Bank of Kenya, and held in November 2022 to discuss global and regional economic and financial market challenges, as well as progress in strengthening arrangements for crisis preparedness and management. In addition to receiving an update on the FSB's work plan for 2023, members also discussed the challenging outlook for financial stability in the region arising from volatile commodity markets, high inflationary pressures, tighter global financial conditions, and other vulnerabilities such as the stress in global energy prices

PUBLIC

and rising debt levels. Members also discussed ways to enhance crisis preparedness and management in the region and the importance of cross-border cooperation.

The Bank of Botswana hosted the FSB RCG SSA from May 31 to June 1, 2023 in Kasane, Botswana. Members discussed recent global and regional developments and their implications for financial stability. The sessions focused on the FSB's work programme for 2023 and how members could contribute to the planned work. Members were of the view that relevant country experiences in the sub-region should be considered in the Emerging Markets and Developing Economies (EMDEs) focus work; and that the discussions should be solution-oriented. They also noted the work plan should be adjusted to reflect deliberations on most vulnerable sectors and activities including the NBFIs, cross border payments and climate change. The meeting also discussed crisis preparedness and resolution planning for financial institutions. Vulnerabilities arising from crypto assets was also deliberated on with members urging countries to try to understand crypto transactions very well, so that appropriate regulations can be administered. On FATF grey listing of countries in the sub region, members were advised to do everything possible to exit the grey list as being on the grey list comes with a lot of incalculable impediments. Following the meeting, the Governor of Zambia offered to be appointed as the co-chair in view of the expiry of the tenure of co-chair Governor Ernest Addison of Bank of Ghana.

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