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The Bank of Ghana (BoG) (central bank) approves a purchase and assumption agreement with Ghana-based Ghana Commercial Bank Ltd (GCB Bank) for a transfer of UT Bank Ltd and Capital Bank Ghana Ltd's deposits and selected assets, for an unconfirmed amount. Finance minister Ken Ofori-Atta delivers the government's mid-year budget review statement to parliament, showing improved government finances compared to the beginning of 2017. The BoG reduces its benchmark interest rate from 22.5% to 21%.

GCB Bank acquires UT Bank and Capital Bank

The **Bank of Ghana (BoG)** (central bank) on 14 August approved a purchase and assumption agreement with Ghana-based **Ghana Commercial Bank Ltd (GCB Bank)** for a transfer of **UT Bank Ltd** and **Capital Bank Ghana Ltd's** deposits and selected assets.¹ The deal will improve GCB Bank's asset base and market share, currently the second largest in Ghana on both of these metrics.² The BoG statement said that it had simultaneously revoked both UT Bank's and Capital Bank's licences due to "severe impairment of their capital"³ and for being "deeply insolvent"⁴ as per the **Banks and SDI Act 2016**.⁵ The Banks and SDI Act states that the BoG gives undercapitalised banks 180 days to correct their position – to reach a minimum capital adequacy of 5% in 90 days, and 10% in 180 days.⁶ The BoG in March gave nine lenders, including UT Bank and Capital Bank, an ultimatum to meet the minimum requirements.⁷ In August 2016, the BoG reportedly sought to increase minimum capital requirements for commercial banks from ₵120m (\$30m) to ₵300m (\$76m).⁸ The BoG claimed to have "exhausted all other alternatives"⁹ to a purchase and assumption agreement.¹⁰ Furthermore, the BoG governor, **Ernest Addison**, announced that the BoG would begin an investigation, and sanction UT Bank and Capital Bank shareholders, directors and management who caused the banks' failure.¹¹

The BoG announced that **PricewaterhouseCoopers LLP (PwC)** would settle all remaining assets and liabilities.¹² GCB directly assumed control of both UT Bank's and Capital Bank's main offices and branches, while customers and staff transferred directly to GCB.¹³ The full transition period, according to GCB, will take up to six months.¹⁴ It appears that GCB won a closed tender against three other banks on the following criteria:¹⁵

- Basis of purchase price, unspecified;
- Cost of funding, amount and source unspecified;

¹ Bloomberg, 14 Aug 2017.

² www.bog.gov.gh

³ www.bog.gov.gh

⁴ www.bog.gov.gh

⁵ www.bog.gov.gh

⁶ www.bog.gov.gh

⁷ Bloomberg, 14 Aug 2017.

⁸ Joy Online, 16 Aug 2016.

⁹ www.bog.gov.gh

¹⁰ www.bog.gov.gh

¹¹ Citi FM, 14 Aug 2017.

¹² www.bog.gov.gh

¹³ www.bog.gov.gh

¹⁴ Citi Business News, 14 Aug 2017.

¹⁵ www.bog.gov.gh

- Retention of branches, for all of UT Bank's and Capital Bank's combined 53 branches;
- Staff retention, all but interim staff will need to renegotiate their contracts – the percentage of interim staff is unclear;
- Impact on capital adequacy ratio, unspecified.

Despite repeated reassurances from the BoG about the security of depositors' funds, and the maintenance of conditions to borrowers' debt, panicked UT Bank customers stormed a branch in **Koforidua (Eastern Region)**, demanding access to the banking hall.¹⁶ According to the customers, the branch was closed, even though the BoG specified that the branches should be open and operational from 1pm on 14 August.¹⁷ Other depositors claimed that automated teller machines (ATMs) were not working.¹⁸ There were also similar reports of denied access to customers at a Capital Bank branch in **Sunyani (Brong Ahafo Region)**.¹⁹

UT Bank and Capital Bank are both Ghana-based, and two of the smaller banks in the sector, which comprises as many as 34 banks.²⁰ UT Bank was incorporated in 1995, while Capital Bank was incorporated in 2009.²¹ Up-to-date financial data from both banks are not publically available.²² Both UT Bank and Capital Bank have refused to partake in a PwC banking sector survey for several years running, perhaps indicative of poor finances.²³

The BoG's firm action against UT Bank and Capital Bank will act as a deterrent to other banks seeking to avoid minimum capital requirements. The number of banks operating in the sector at present may reveal that the BoG had previously been more lax in the application of minimum capital requirements. However, the threat of customer panic at branches of the transferred banks following the revocation of their licences was present, despite the BoG's efforts to mitigate this risk. The BoG's strategy of concealing transfer details such as the other bidders and the amount of the transaction may not necessarily have proven more effective in containing this phenomenon – it could arguably have created more confusion.

Ofori-Atta delivers mid-year budget review statement

Finance minister **Ken Ofori-Atta** delivered the government's mid-year budget review statement to parliament on 31 July.²⁴ Overall, the budget review statement appears to show improved government finances compared to the beginning of the year. The budget review statement revealed the following comparisons between targets and macroeconomic performance to date:

- A fiscal deficit of 2.7% of gross domestic product (GDP) from January to June, compared to an end-of-year target of 3.5%;
- A GDP growth rate of 6.6% in the first quarter, compared to an end-of-year target of 6.3%;
- Inflation of 12.1% from January to June, compared to an end-of-year target of 11.2%, and down from 15.4% at the end of December 2016;
- A budget deficit of 6.3% of GDP, compared to an end-of-year target of 6.5%;
- A primary surplus of 0.6% in the first six months of 2017, compared to an end-of-year target of 0.4% of GDP;

¹⁶ Citi FM, 14 Aug 2017.

¹⁷ Citi FM, 14 Aug 2017.

¹⁸ Citi FM, 14 Aug 2017.

¹⁹ Citi FM, 14 Aug 2017.

²⁰ www.pwc.com

²¹ www.pwc.com

²² www.pwc.com

²³ www.pwc.com

²⁴ Citi FM, 31 Jul 2017.

- Foreign reserves that cover 3.4 months of goods and services (\$5.9 billion), compared to an end-of-year target of three months.²⁵

Ofori-Atta acknowledged that the 2016 economic data was less positive than initially detailed in the 2017 budget²⁶ and this could negatively impact implementation of the 2017 budget, despite positive performance up until June. **Ghana Statistical Service** data showed that GDP growth reached 3.5% in 2016, compared to the 2017 budget's estimate of 3.6%.²⁷ According to Ofori-Atta, this was Ghana's lowest rate in 15 years.²⁸ Ofori-Atta cited decreases in the cocoa and oil sectors' commodity price performance as the main cause of the minor difference in the 2016 growth rate.²⁹ The 2016 fiscal deficit was also higher than the initial 2017 budget figure, from 8.7% of GDP, now at 9.3% of GDP.³⁰ Ofori-Atta also cited high rates of debt-to GDP (73.1% of GDP) and inflation (15.4%), as well as low foreign currency reserves (2.8 months' worth of import cover) in 2016.³¹ Some opposition members alleged that Ofori-Atta's figures were manipulated and that end-of-year targets are entirely unrealistic.³² However, a local source with connections in the finance ministry confirms that these are speculative,

*"Allegations of manipulation are false, purely borne out of suspicions rather than facts. My source at the finance ministry tells me that the government is being cautious over the end-of-year objectives. There is so much that can happen between now and then but government believes it can achieve them."*³³

Senior minister **Yaw Osafo-Maafa** said on 7 August that the government is considering a **Fiscal Responsibility Law** to limit the fiscal deficit to 3- 5% of GDP.³⁴ The law could help contain government indebtedness in the long term. The proposed law would reportedly punish officials that surpass the proposed threshold.³⁵ The **New Patriotic Party (NPP)** government's fiscal deficit target for 2017 is 6.3%, down from 9.3% in 2016.³⁶ The NPP is seeking to introduce the law through a reform of the **Public Financial Management Act**.³⁷ The NPP cabinet approved the legislative proposal at the end of July; Ofori-Atta had made the proposition to President **Nana Addo Dankwa Afuko-Addo** (2017-present) in January.³⁸ The NPP claims it will put forward the law in parliament before the end of 2017.³⁹ Sources confirm that the government is serious about the reform.⁴⁰

The NPP government's commitment to fiscal consolidation at present appears sincere, especially in comparison with the former **National Democratic Congress (NDC)** government, which failed to disclose expenditure at the end of 2016 totaling \$1.6 billion (see *ARC Briefing Ghana February 2017*). The short-term improvements in reducing the fiscal deficit, as well as repeated mention and active push for introduction of the Fiscal Responsibility Law, are indicative of the NPP's commitment. The allegations of manipulation of the mid-year budget review appear fanciful, without compelling proof to question Ofori-Atta's figures.

²⁵ Multiple sources: Citi FM, 2 Mar 2017; www.mofep.gov.gh.

²⁶ www.mofep.gov.gh

²⁷ www.mofep.gov.gh

²⁸ www.mofep.gov.gh

²⁹ www.mofep.gov.gh

³⁰ www.mofep.gov.gh

³¹ www.mofep.gov.gh

³² Source, journalist, Accra

³³ Source, journalist, Accra

³⁴ Reuters, 7 Aug 2017.

³⁵ Reuters, 7 Aug 2017.

³⁶ Reuters, 7 Aug 2017.

³⁷ My Joy Online, 25 Jul 2017.

³⁸ Graphic Online, 17 Jan 2017.

³⁹ Graphic Online, 17 Jan 2017.

⁴⁰ Source, journalist, Accra

Central bank lowers benchmark interest rate

Following the BoG monetary policy committee (MPC) meeting on 21 July, the BoG reduced its benchmark interest rate from 22.5% to 21%.⁴¹ The decision appears to confirm a shift in the BoG's monetary policy since Addison became governor. The BoG had already cut its benchmark interest rate from 25.5% to 23.5% in March (the largest interest rate cut since 2010), and to 22.5% in May. **Razia Khan**, head of **Africa** macroeconomic research at **Standard Chartered Bank Plc**, believes that the BoG is moving towards the real market interest rate,

"With the wide variation between where market interest rates are and where the policy rate is, maybe the Bank of Ghana was looking to accelerate the closure of that gap ... They are keen to stimulate private-sector credit growth."⁴²

Other economists, such as **Godfred Bokpin**, professor at the **University of Ghana**, said that the BoG must do more to push interest rates down,

"There is room for [interest rates] to have come down further but the question is whether it should be done all at a go or in a gradual way, and I think that they will go for a gradual way since headline inflation is curbing downwards... We are still far away from making credit much cheaper to the private sector, so there is still a lot that we have to do."⁴³

A local journalist confirms that the business community is responding well to Addison's influence on monetary policy, however, banks will need to pass the decrease in interest rates on to clients:

*"Addison has been endorsed by the business community unanimously – they are confident he can turn things around. **Fitch Ratings** forecast that interest rates will drop to 18%. This will be significant. The challenge lies with how this translates into lending rates of banks. Despite the big drop so far, banks reduced lending rates marginally. This is worrying because if the drop in policy rates does not result in a significant drop in bank lending rates, the impact on business and economic growth will not be felt."⁴⁴*

The BoG MPC noted an economic rebound with the beginning of oil production at **Italy**-based **ENI SpA**'s offshore **Sankofa** oilfield, in addition to the **Tweneboa-Enyenra-Ntomme (TEN)** and **Jubilee** oilfields.⁴⁵ The BoG MPC projected that headline inflation will probably continue to decline towards the medium term target of 8%, plus/minus 2, in 2018.⁴⁶ The BoG MPC cited "encouraging" economic data developments:⁴⁷

- Consumer price inflation (CPI) of 12.1%, down from 13% in April and 12.6% in May;
- Core inflation (excluding energy and utility price changes) of 12.8%, down from 13.7% in April and 13.3% in May;
- Year-on-year (YoY) gross domestic product (GDP) growth of 6.6% in the first quarter of 2017, compared to 4.4% in the same period of 2016. The BoG admitted that non-oil sector growth had not matched this performance, decreasing from 6.3% GDP growth in the first quarter of 2016 to 3.9% in the first quarter of 2017;
- A YoY increase in bank credit to the private sector and public institutions of 16.4% (5.1 billion cedis (¢) (\$1.16 billion)) in May 2017, from 11.4% (¢2.5 billion (\$568m)) in May 2016;
- Total public debt of ¢137.2 billion (\$31.2 billion) at the end of May 2017, from ¢122.6 billion (\$27.9 billion) at the end of 2016. Total public debt is divided between 46.6% domestic and 53.4% external;

⁴¹ www.bog.gov.gh

⁴² Bloomberg, 24 Jul 2017.

⁴³ Citi Business News, 24 Jul 2017.

⁴⁴ Source, journalist, Accra

⁴⁵ www.bog.gov.gh

⁴⁶ www.bog.gov.gh

⁴⁷ Unless otherwise noted - www.bog.gov.gh

- A trade surplus of 3.1% of GDP at the end of June 2017, compared to a 3.3% trade deficit at the end of 2016;
- A \$317m (0.7% of GDP) current account surplus in the first quarter of 2017, from a \$577m (1.4% of GDP) current account deficit in the first quarter of 2016. Furthermore, the BoG noted a net outflow in the capital and financial account of \$523m (1.1% of GDP) in the first quarter of 2017;
- A 3.7% YoY depreciation of the cedi against the dollar in June 2017, compared to 3.3% YoY depreciation in June 2016;
- Foreign reserves of \$5.9 billion (3.4 months of import cover) at the end of June 2017, up from \$4.9 billion (2.8 months of import cover) at the end of December 2016.

It would appear that the BoG has the full support of the business community in its pursuit of a decrease in seemingly artificially high interest rates, for which many had criticised the former governor, **Abdul Nashiru Issahaku**. Banks appear to have been slow to respond to the BoG's monetary policy actions. However, market forces are likely in the medium term to push banks' lending rates down, especially due to the number of banks operating in the sector and consequent competitive pressures.

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