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The Bank of Ghana (BoG) (central bank) announces a 233.3% increase in minimum capital requirements for commercial banks, from 120m cedis (¢) (\$27.2m) to ¢400m (\$90.4m). The International Monetary Fund (IMF) completes its fourth review under the \$918m extended credit facility (ECF) signed in April 2015. The IMF also approves a \$94.2m disbursement and agrees to extend the ECF by one year, until April 2018. President Nana Addo Dankwa Akufo-Addo (2017-present) officially launches the 'One District, One Factory' policy initiative, which aims to develop a factory in each of Ghana's 216 districts.

Central bank increases minimum capital for commercial banks

The **Bank of Ghana (BoG)** (central bank), on 8 September, announced a 233.3% increase in minimum capital requirements for commercial banks, from 120m cedis (¢) (\$27.2m) to ¢400m (\$90.4m).¹ The new regulation will impose a stricter capital environment for banks, which will improve the health of **Ghana's** commercial banking sector, but could lead to the exclusion and/or takeover of some commercial banks. Furthermore, the increase in minimum capital requirements is likely to encourage more risk averse lending practices in the sector. The official BoG reasoning behind the change, however, is to support the government's plans to increase individual and commercial lending. The BoG claims that the current capital requirement would not be able to support an increase in lending.² The BoG has shown in previous weeks that it is firm in its intent to shore up banks' solvency, revoking the licences of two banks, **UT Bank Ltd** and **Capital Bank Ghana Ltd** (see *ARC Briefing Ghana August 2017*). However, both of these banks were operating below the previous ¢120m (\$27.2m) capital requirement. The current increase in minimum capital requirements appears likely to put several banks at risk of having their licences revoked. The BoG will allow banks to meet the new requirements through either one or a combined use of capital injection and/or capitalisation.³ The BoG will not allow commercial banks to recapitalise using revaluation reserves, reserves on financial instruments, statutory reserves, credit risk reserves or unaudited profit.⁴

The BoG has given commercial banks until 31 December 2018 to meet the new capital requirements.⁵ As a result of the announcement, the **Ghana Stock Exchange (GSE) Composite Index** declined 2.8%, the greatest drop since 2011, after reaching a record high two days earlier.⁶ The hardest hit equities were **Ghana Commercial Bank Ltd (GCB Bank)** – which had taken over UT Bank and Capital Bank – losing 10%; and **Standard Chartered Bank Ghana Ltd**, losing 9.8%.⁷ Some commentators affirmed that the BoG's new minimum capital requirements are much higher and more severe than expected.⁸ For example, in August 2016, the BoG had reportedly sought to introduce an increase in minimum capital requirements for commercial banks from ¢120m (\$27.2m) to ¢300m (\$76m).⁹ The BoG's

¹ www.bog.gov.gh

² Bloomberg, 8 Sept 2017.

³ www.bog.gov.gh

⁴ www.bog.gov.gh

⁵ www.bog.gov.gh

⁶ Bloomberg, 8 Sept 2017.

⁷ Bloomberg, 8 Sept 2017.

⁸ Bloomberg, 8 Sept 2017.

⁹ Joy Online, 16 Aug 2016.

minimum capital requirement was €7m (\$1.58m) in 2007, increasing to €60m (\$13.6m) in 2008 and €120m (\$27.2m) in 2012.¹⁰ According to someone familiar with the matter,

*“Increasing minimum capital was on the BoG table long before Ghana signed onto the **International Monetary Fund [IMF]**. However, the IMF agrees to it and pushed for it after a stress test conducted on banks two years ago at the instance of the IMF revealed weaknesses.”¹¹*

Some analysts speculate that the more aggressive stance of the BoG is an attempt to decrease the number of banks operating in Ghana, which they believe is having a negative impact on the standard of lending services.¹² Other industry sources believe that some banks will be forced to raise capital on the GSE to meet the new capital requirement.¹³ A local journalist deemed it almost inevitable that the new capital requirement will reduce the number of banks.

*“The increase in minimum capital will result in fewer banks. Clearly, mergers and acquisitions are in the offing. The bigger banks, especially foreign banks with strong mother banks, will swallow the smaller banks. Sources at the BoG says only three banks will not need additional capital to meet the minimum capital requirements: **Barclays Bank of Ghana Ltd, Zenith Bank (Ghana) Ltd and GCB Bank.**”¹⁴*

The same source affirms that a banking sector with fewer, but stronger, banks will have a positive effect on interest rates,

“With bigger banks, real competition will result in the reduction of interest rates. If smaller banks are out of the system, the big banks can reduce interest rates... The mergers will only start appearing in the middle of next year.”¹⁵

The BoG appears to have a greater interest in lower lending rates, as small banks may struggle to follow policy rate cuts in Ghana. The BoG had often been criticised in the past as its means to influence the banking sector was constrained, where policy changes would see less of an impact on commercial bank lending rates. An increase in consumer and business lending is therefore more likely towards the end of 2018, when commercial banks in Ghana are vying to position themselves after full introduction of the measure.

IMF completes fourth ECF review

The IMF on 30 August completed its fourth review under the \$918m extended credit facility (ECF) signed in April 2015.¹⁶ The IMF also approved a \$94.2m disbursement and agreed to extend the ECF by one year, until April 2018.¹⁷ The extension will spread out the final disbursements of the ECF, affording more time to the **New Patriotic Party (NPP)** government to meet the IMF’s policy requirements. To date, the IMF has disbursed a total \$565.2m, or 61.6% of the ECF.¹⁸ IMF executive board chair **Tao Zhang** noted that policy performance has been irregular in recent years,

“Policy slippages have compounded the adverse impact of shocks and resulted in significant external and domestic imbalances. ... As risks remain tilted to the downside, careful fiscal management will be required to achieve the 2017 program targets and reverse the unfavorable debt dynamics. Additional efforts are needed to address revenue shortfalls, while expenditure

¹⁰ Graphic Online, 12 Sept 2017.

¹¹ Source, journalist, Accra

¹² Source, analyst, Accra

¹³ Bloomberg, 8 Sept 2017.

¹⁴ Source, journalist, Accra

¹⁵ Source, journalist, Accra

¹⁶ www.imf.org

¹⁷ www.imf.org

¹⁸ www.imf.org

control measures should be fully enforced to contain current spending, and prevent the recurrence of domestic arrears.”¹⁹

The local press blames the former ruling **National Democratic Congress (NDC)** government, under President **John Dramani Mahama** (2012-2017), for the policy slippages,

*“Financial mismanagement of the NDC continues to unfold in the media. For instance, on Tuesday, private radio station **Joy FM** is serializing what they claim to be ‘bloated contracts’ entered into under the Mahama administration with respect to local government.”²⁰*

According to sources familiar with the matter, the NPP government’s fiscal policy is now firmly in line with the IMF’s requirements,

“The fiscal policy underpinning the new government’s budget is no different from that of the IMF, incidentally. There are no significant changes between the two.”²¹

With regard to the BoG’s monetary policy, Zhang commended an improvement in inflation targeting, and called for the BoG to be cautious amid decreasing inflation.²² Furthermore, Zhang stated that the BoG has made “*significant progress*” in enforcing recapitalisation and resolution of insolvent banks.²³ The IMF called for the BoG to strengthen the supervisory and regulatory framework, minimise liquidity support, and bolster microfinance to create a more robust financial sector.²⁴

However, the IMF reiterated that poor economic performance in 2016 was due to a poor commodity price environment and “*sizeable fiscal slippages*”.²⁵ The IMF noted that gross domestic product (GDP) growth in 2016 was its lowest in the past 20 years, at 3.5%.²⁶ The IMF forecasts a recovery in the economy through an increase in oil production, lower inflation and the improved policy implementation.²⁷ IMF expects consumer price inflation (CPI) to drop from 11.8% in 2017 to 9% in 2018 and 7% in 2019. The IMF also expects 5.9% GDP growth in 2017, increasing to 8.9% in 2018.²⁸ Most of the expected growth will be in the oil and gas sector, which is expected to grow 42.5% in 2017, and 64.9% in 2018.²⁹

The extension to the IMF loan, in addition to the immediate cash injection, will help the government adhere to the programme’s requirements. However, the IMF will have a strong influence on fiscal policy until a later completion date, which could translate into more constraints to the upper limits of government spending.

Akufo-Addo launches the ‘One District, One Factory’ initiative

President **Nana Addo Dankwa Akufo-Addo** (2017-present), on 27 August, officially launched the ‘**One District, One Factory**’ policy initiative.³⁰ The programme aims to boost value-added industry and job creation by supporting the development of factories in each of Ghana’s 216 districts.³¹ As Akufo-Addo said at the launch of a factory in **Ekumfi (Ekumfi District, Central Region)**,

“If we continue to maintain economic structures that are dependent on the production and export of raw materials, we cannot create the necessary numbers of high-paying jobs that will

¹⁹ www.imf.org

²⁰ Source, journalist, Accra

²¹ Source, journalist, Accra

²² www.imf.org

²³ www.imf.org

²⁴ www.imf.org

²⁵ www.imf.org

²⁶ www.imf.org

²⁷ www.imf.org

²⁸ www.imf.org

²⁹ www.imf.org

³⁰ GNA, 28 Aug 2017.

³¹ GNA, 28 Aug 2017.

enhance the living standards of the mass of our people. Raw material producing economies do not create prosperity for the masses. We must add value to these resources, and we must industrialise.”³²

The first factory launched under the programme – the **Ekumfi Fruits and Juices Co Ltd** – will process and package 80 tonnes of fruit per day and create 250 direct jobs at the factory.³³ Akufo-Addo is aiming to launch businesses in as many as 51 districts by the end of 2017, with an end objective of 80,000 jobs created.³⁴ The ‘One District, One Factory’ initiative has a technical support group which reviews business plans and decides on the level of government financial support.³⁵ The government allocated \$100m towards the programme in the 2017 budget, while Akufo-Addo announced that local finance institutions will contribute a further \$340m.³⁶

The success or failure of the ‘One District, One Factory’ programme, one of Akufo-Addo’s foremost manifesto proposals, will have a significant impact on political support. The project is ambitious, not least due to its scope and cost, but equally as a path towards greater levels of job creation with the Ghanaian population. Successful implementation of the policy will require high levels of state-led investment. Local financing will bear the brunt of this cost, at current estimations. Furthermore, the number of investors needed to uphold Akufo Addo’s campaign promise will demand rigorous commercial efforts on behalf of the government.

Planner

30 May 2018 **Accra (Ghana) Press Release**. The **West Africa Mining & Power Exhibition & Conference** begins;

Apr 2018 **(Ghana) Press Release**. The government completes its ECF programme with the IMF;

19 Mar 2018 **Accra (Ghana) 10 Times**. **Coastal and Maritime Surveillance Summit** begins;

25 Jan 2018 **Accra (Ghana) Eventbrite**. **Mining Investment West Africa** conference begins;

Dec 2017 **Accra (Ghana) Press Release**. The third parliamentary meetings ends;

7 Nov 2017 **Accra (Ghana) Press Release**. **West African Clean Energy and Environment Exhibition and Conference** begins;

7 Nov 2017 **Accra (Ghana) Press Release**. Communications ministry hosts the **Tech in Ghana Conference**;

4 Oct 2017 **Accra (Ghana) Press Release**. **Ghana Trade Show** begins;

Oct 2017 **Accra (Ghana) Press Release**. The third parliamentary meetings begin;

25 Sept 2017 **Accra (Ghana) Press Release**. The **West & Central Africa Mining Summit & Expo**. begins;

Chronology

14 Sept 2017 **Accra (Ghana) Reuters**. The **Ghana Cocoa Board** will reportedly maintain its current farmgate cocoa price at 7,600 cedis (\$1,720) per tonne, or 33.3% higher than neighbouring **Côte d’Ivoire**;

8 Sept 2017 **Accra (Ghana) Bloomberg**. The **Bank of Ghana** (central bank) increases minimum capital requirements for banks by 233.3%, from (¢) 120m cedis (\$27.2m) to ¢400m (\$90.4m);

6 Sept 2017 **(Côte d’Ivoire, Ghana) Graphic Online**. The **International Tribunal for the Law of**

³² GNA, 28 Aug 2017.

³³ GNA, 28 Aug 2017.

³⁴ GNA, 28 Aug 2017.

³⁵ Business Day Ghana, 28 Aug 2017.

³⁶ Business Day Ghana, 28 Aug 2017.

the Sea will rule on 23 September on the maritime border delineation dispute between Côte d'Ivoire and Ghana;

30 Aug 2017 **Accra (Ghana)** *Press Release*. The **International Monetary Fund** completes its fourth review under the \$918m extended credit facility, disbursing \$94.2m, and extending the programme by one year;

29 Aug 2017 **Accra (Ghana)** *Graphic Online*. The **Ghana Stock Exchange** suspends trading shares of state-owned **Cocoa Processing Co Ltd**;

28 Aug 2017 **Accra (Ghana)** *Graphic Online*. The **Ghana Stock Exchange** suspends five companies - **African Champion Industry Ltd, Clydestone (Ghana) Ltd, Golden Web Ltd, Pioneer Kitchenware Ltd** and **Transaction Solutions Ltd** - for failing to meet obligations;

28 Aug 2017 **Accra (Ghana)** *B&FT Online*. The **Karpowership Ghana Co Ltd's 470MW Osman Khan Powership** arrives in Ghana, and will begin operating at **Tema** in September;

26 Aug 2017 **Accra (Ghana)** *GNA*. President **Nana Addo Dankwa Akufo-Addo** launches the '**One District, One Factory**' initiative;

22 Aug 2017 **(Equatorial Guinea, Ghana)** *My Joy Online*. Presidents **Nana Akufo-Addo** and **Teodoro Obiang Nguema** sign a memorandum of understanding for Equatorial Guinea to supply 150 million cubic feet of liquefied natural gas (LNG) per day to Ghana;

18 Aug 2017 **Accra (Ghana)** *Graphic Online*. The **Bank of Ghana** (central bank) blocks the accounts of the directors of **UT Bank Ltd** and **Capital Bank Ghana Ltd** - banks which **Ghana Commercial Bank Ltd** recently took over;

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