

# **The Role of the Banking Sector in Developing the Ghanaian Capital Market**

Address by K.B. Amissah-Arthur, Governor, Bank of Ghana

on the theme: Financing Ghana's Future - Capital Markets

Mr. Chairman,

Distinguished Panel Members,

Invited Guests,

Ladies and Gentlemen,

1. It is not always that one has an opportunity to welcome Euromoney to Ghana. I wish to extend our thanks for the foresight in organizing a conference at a time we are hoping to tap long term funds to support Ghana's development agenda, especially the financing of critical infrastructure for accelerated growth. The decision to choose Ghana for this Conference, I hope, is to support our quest to become the financial hub of the West African sub-region.
2. Coming from the policy-making side of the banking industry, my remarks will focus on what the central bank can do to facilitate the process of capital mobilization. I notice that the panel is made up of specialists from Development Finance, Capital Markets and Treasury. I expect they will focus on the respective roles of their areas and the challenges they face in growing those sectors.
3. The central bank has critical roles in three areas: creating and sustaining a stable macroeconomic environment, building a vibrant, safe and sound banking system and supporting a thriving bond market. I will address each of these in turn.

## ***The macro-economy***

4. The importance of a stable macro-economic environment for capital formation and efficient resource mobilization is universally acknowledged. It is only in stable conditions that the mobilization and investment of resources can be optimized. This explains why

over the last few years, fiscal and monetary authorities have made concerted efforts to restore and sustain macro-economic stability. The results of our efforts are evident.

5. Inflation has trended down consistently over the last thirty-three months and has remained well anchored within single digits since June 2010. Indeed, we have witnessed a rare period in our post-independence history of sustained relatively low inflation. We have also observed relative stability in the exchange rate regime, even though we have experienced some critical challenges in the last few weeks. Real sector surveys have indicated that inflation and economic growth expectations are well-anchored in the right direction.
6. The stable economic environment has provided substantial impetus for economic activity. The Bank of Ghana's real sector surveys and confidence indices have, on the average, indicated increased confidence in the economy from both consumers and businesses.
7. In 2011, year-on-year real GDP in the third quarter was at 12 percent, with an end-year projected outturn of 13.6 percent. It must be noted that while growth prospects were undoubtedly boosted by the newly-added oil sector, non-oil GDP growth is estimated to have expanded by 8.2 per cent.
8. The 2011 economic performance was strongly driven by industrial growth in the oil, construction and mining sub-sectors. Transport, information and communication technology, all in the Services sector, contributed strongly to the growth performance. The oil sub-sector presents great opportunities for the Ghanaian economy to accelerate its growth potential by exploring the ancillary sectors and significant multiplier effects.
9. We recognize that macroeconomic stability is a necessary but not sufficient condition for accelerating and sustaining economic growth. Real sector interventions, including the removal of the significant infrastructural bottlenecks, will enhance economic growth and instigate Ghana's economic transformation, generate additional employment,

reduce poverty levels and help the attainment of higher standards of living, commensurate with the status of a lower middle income country.

10. This calls for a multi-dimensional approach to policy formulation especially for the financial sector, which is at the center stage of the growth and development process. Therefore, we need to create and re-energize the financial infrastructure for economic resource mobilization. As the regulator of the banking system, the Bank of Ghana sees potential for the banking sector to lead this process.

***Building a vibrant, safe and sound banking sector***

11. The banking sector is key in resource mobilization and an integral part of the payment and settlement system - activities vital for the efficient functioning of a market economy. The safety and soundness of the banking system hinges on adequate capital and good governance practices, including robust risk management systems.

12. In recognition of these, the Bank of Ghana introduced Risk-based Supervision in its oversight of banks and complemented this with a re-capitalization process for all banks. The Bank is taking steps to continually improve its regulatory and supervisory responsibilities to ensure that only strong and well-managed banks operate in its jurisdiction.

13. The re-capitalization policy provided a much-needed boost to the economy with the near quadrupling of bank capitalization from GH¢445.8 million to about GH¢1.65 billion in the three years between December 2008 and December 2011. Banks' reserves have also doubled from GH¢666.9 million to GH¢1.38 billion over the same period. The increased capitalization has enabled banks to take on large transactions vital to the economy.

14. Ghana's banking system comprises mainly privately-owned banks, but also some banks with Government and State institutions as shareholders. Currently, only seven of the twenty-seven universal banks are listed on the Stock Exchange. We are encouraging the

listing of banks in the local stock market because it presents a number of benefits to the listing institutions in particular, as well as the wider economy. If the other twenty banks get listed on the Ghana Stock Exchange, the number of listed equities will increase to 54, adding momentum to activities on the Exchange.

- 15.** Given that Ghana's banking sector has remained profitable over the years, the Initial Public Offering of banks could generate significant interest among investors. The attractiveness of these stocks should draw investors into the market and expand the resources available for the country's development.
- 16.** Public listed banks have a second attraction. The governance structures imposed by the stock market, including a broadening of ownership, regular, periodic reporting to the market and independent Directors not only enhance confidence in the institutions but complement the oversight role of the regulator. Banks that adopt this route have the opportunity to build enduring relationships with international banks and tap into medium to long term funds for intermediation in the local economy. Thus, in addition to opportunities for attracting additional capital resources and therefore building their capacities for risk taking, such banks stand to attract capital for greater intermediation.
- 17.** It is precisely because of these potential benefits that the Bank of Ghana is pushing for the listing of all banks on the stock market in the medium to long term. To start with, we are offering the opportunity to domestically-controlled banks that have not as yet met the required minimum capitalization of GH¢60 million, to explore the stock market option for closing their capital gaps.
- 18.** Let me also add that to properly harness the capital markets, owners of Ghanaian businesses need an attitudinal change; a desire to share ownership. Entrepreneurs must look beyond their immediate situation and seek to tap into capital from the wider public. This calls for a desire to share management and to be subject to serious scrutiny. This understanding is vital to unlocking the potential of our capital markets.

### ***The bond market***

- 19.** The Bank of Ghana believes that a well-functioning bond market can play a critical role in resource mobilization by providing medium to long term funds for financing investment.
- 20.** Ghana has already seen signs of this in the significant inflows from foreign investors in the 3 and 5-year government bonds in which foreigners are allowed to participate. These inflows have contributed to the increase in the level of the Bank's gross reserves. However, the sovereign European debt crisis has presented some challenges in the early redemption of bonds. Because of our good record of economic performance and the greater policy flexibility we have been able to meet this challenge.
- 21.** The global economic outlook in the near-term is even more uncertain than anytime since the 2008 crisis. The lack of concrete steps to solve the European debt problem has increased concerns as sovereign spreads for core Europe are coming under increased pressure. The US is expected to show sub-par growth, while the Euro area is in recession and Japan is just growing at potential. Despite the deterioration in the global economic outlook and weaker market conditions, the Ghana sovereign Euro bond and cedi-denominated debt provided good returns for investors in 2011, with more compelling valuations compared with developed markets.
- 22.** The reach for yield and the deteriorating outlook in developed markets have been the main driver of increased inflows to dedicated emerging market fixed income funds. Ghana has benefited from this trend. However, we are aware that there could be a reversal of these inflows if the uncertain global economic conditions continue and investors opt to increase their risk aversion to more hard currency debt. The Bank would therefore continue to aim at shoring up its Gross International Reserves to meet any increased foreign exchange needs should there be any such reversals.
- 23.** The Bank has already initiated steps towards reforming its Primary Dealer (PD) system

to ensure that qualified PDs are given the right incentives through a well-defined privileges and responsibilities framework aimed at strengthening their market making and underwriting abilities. We have developed the infrastructural base for the smooth functioning of the bond market by establishing an efficient issuance, trading and settlement system of Government securities. These include the Central Securities Depository and the electronic Real Time Gross Settlement System (RTGS) to ensure immediate settlement of traded securities in line with international best practices.

**24.** The Bank will continue to collaborate with Government to improve the functioning of the market, by publishing an issuance calendar and extending the maturity profile to guide the market and encourage the evolution and growth of a corporate bond market. We are committed to maintaining a foreign exchange regime which is well-anchored to overall economic policy objectives and provides a good risk-adjusted return for portfolio investments.

**25.** Needless to say, a sound and stable macroeconomic environment is an imperative for engendering a vibrant money and capital market. At the central bank, we will continue to collaborate with the fiscal authority to consolidate the stability in the economy and create the conditions for capital market players, such as are represented by the audience, to play their role in harnessing the opportunities so created.

**26.** On that note Mr. Moderator, thank you very much for the attention. I wish you fruitful discussions.