Africa Programme
Meeting Summary

CHATHAM HOUSE
The Royal Institute of International Affairs

Financial Sector Development in Ghana: Enabling Efficiency and Broad-based Growth

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Introduction

On 14 July 2015, the Africa Programme at Chatham House hosted a meeting with the CEO of Standard Chartered Bank Ghana, Mr Kweku Bedu-Addo. This meeting provided the opportunity to discuss the importance of financial sector development for achieving Ghana's long-term economic aims. Also discussed was how local and international financial institutions may contribute to increased efficiency and broad-based growth.

This meeting was held on the record. This document is intended to serve as an aide-memoire for those who took part, and to provide a general summary of discussions for those who did not.

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Kweku Bedu-Addo

Ghana's economic growth is expected to slow in 2015, for the fourth consecutive year, in the wake of an energy crisis and currency depreciation. Both the crisis and the depreciation are expected to be coincident with high levels of public debt and fiscal imbalances. But the country's long-term prospects remain strong. The economy is expected to recover, supported by strong institutions and growth in the industrial sector. A relatively robust financial sector continues to increase loans to the private sector and small and medium-sized enterprises (SMEs). The introduction of the Ghana Alternative Exchange and three successful Eurobond issuances have bolstered this development.

Standard Chartered is the oldest bank in Ghana (established in 1896 as the Bank of British West Africa), and possesses both historical significance and unique leverage, having played key roles including that of Ghana's central bank for a time. Though a private institution, Standard Chartered holds a degree of influence within Ghana's public sector, lending the bank's public programmes, including its Thought Leadership Initiative, particular significance. Through the Thought Leadership Initiative, Standard Chartered can provide Ghana's government with financial and economic counselling. A key focus of the initiative is risk management, which could help to stabilize crude oil and petroleum prices.

In addition to oil and gas, the main contributors to Ghana's economy include agriculture, mining and services. The services sector, which accounted for 52 per cent of Ghana's GDP in 2014, has overtaken that of agriculture to become Ghana's dominant sector. This transition occurred largely as a result of declining agricultural productivity and a weak manufacturing sector, not because of a significant rise in services' productivity. The present dominance of services over manufacturing and agriculture reveals further opportunity for stimulation of Ghana's economy. Ghana's economy is not operating at its full potential, but it can yet turn the underdevelopment of its agricultural and manufacturing sectors into avenues for growth. Ghana's GDP is approximately $39 billion, making the country the seventh largest economy in Sub-Saharan Africa. Ghana's real GDP has grown just over 3 percent this year [by July 2015] – a reversal of fortune, although five years ago real GDP was growing at an annual rate of 13 percent.

The bulk of Ghana's economic problems can be ascribed to rising fiscal and current account deficits. Ghana's financial sector remains rudimentary. Low market liquidity is a major issue in banking, and is the direct result of low capitalization. Apart from the banks established in 2014, which have a capital requirement of $40 million, Ghana's banks must hold $20million in capital. The impact on the economy of such low capital requirements is the fundamental inability of the banking sector to financially support other sectors. Agriculture remains largely subsistent and is hindered by inefficient market arrangements.

Cocoa remains the only commodity that receives considerable support. The housing sector is equally inefficient as it is expanding too slowly to deal with current rates of urbanization. The impact of this is a rapid decline in hygiene and health standards that threaten to increase mortality in Ghana's urban areas. The housing ladder does not exist in Ghana, as middle-income housing has effectively been driven out of the market.

State-owned hospitals have been strained beyond capacity, hindering the state's ability to deliver sound healthcare. The health sector is one of many handicapped by an unstable power supply. Ghana faces a resource trap, and is unable to deliver quality services. Not only is the public sector unable to meet the needs and expectations of citizens, it is also decoupled from the financial sector. Subsequently, the banking sector remains too financially constrained to support sectors that require significant private investment and effective management.

The potential causes of Ghana's sectoral disconnect are serious structural gaps that are exacerbated by high levels of uncertainty and a lack of institutional credibility. Strategies that align markets with policy could provide a needed solution. Ghana is vulnerable to both cyclical shocks and structural challenges. A more robust financial system is needed to provide adequate buffers against these cyclical shocks, but structural challenges can only be tackled by government and society working together. Public sector reform could generate a leaner, more efficient government. In addition, legislation installing financial moderation could promote dialogue and encourage better observation of economic trends. The end goal of a financial moderation act would be financial inclusion, as it would create financial awareness and mobilize savings.

Ghana's capital markets operate below their potential, due to systemic gaps. In addition to the ongoing improvement of capital markets, further gains could come through a revamped trading infrastructure and increased liquidity in the capital markets. One improvement is the fixed income governing council's development of new market manuals and trading guidelines, which seek to encourage regular dialogue between marketers and stakeholders, foster market alignment and develop the secondary market.

Question and Answer Session

Questions

What factors deter investors from investing into Ghana's real estate sector?

What is Standard Chartered's role in the privatization of the Electricity Company of Ghana (ECG)?

What impact has rising energy prices had on Standard Chartered's relations with domestic and international energy companies operating in Ghana?

Kweku Bedu-Addo

Companies are willing to invest in Ghana, but institutional bottlenecks prevent them from doing so. This problem is both financial and legal. Not only do low numbers of mortgage holders and high interest rates constrain the market, there are also discouraging substantial legal costs incurred during the acquisition of land and the development of property. The issue is also structural, as financial markets are too immature to sustain mortgages that require long-term bulk deposits.

Standard Chartered has pledged $5 billion to President Barack Obama's Power Africa initiative, demonstrating the bank's commitment to improving Ghana's power sector. Ghana and its investors are, however, at a standstill in the power purchase agreement, which is delaying privatization. Uncertainty is one of the main issues. Details of promised reform are yet to emerge, but Standard Chartered is ready to lend further support if the privatization process of ECG is credible. The privatization process will involve the US-based Millennium Challenge Corporation, but it remains subject to domestic issues related to Ghana's willingness to cooperate.

Questions

How does Standard Chartered navigate Ghana's strict policy on operating foreign currency accounts, given the popularity of remittances in foreign currency to domestic accounts from abroad?

What is Standard Chartered's perception of corruption and the impact of corruption on business in Ghana?

How healthy is Ghana's banking system?

Kweku Bedu-Addo

The Bank of Ghana's supposedly strict policy on foreign currency transfers was a well-intentioned approach to foster financial stability but perhaps should have been based on more thorough consultation.

Standard Chartered has been able to build credibility by taking a strong stance against corruption. This stance is reinforced by the UK Bribery Act (2010). To varying degrees, corruption is present everywhere and can affect the way business is conducted. Standard Chartered's stance against corruption has not made the bank unsuccessful in the market.

There is a dislocation in the cycle of moving capital that impacts the health of Ghana's banking system. The growth rate of Ghana's real GDP has declined in comparison to previous years. Exchange rates depreciated by 25 percent in the first half of 2015, but at present [July 2015] have appreciated by 45 percent. This means that in the second half of 2015 interest rates will rise, resulting in even further constraints on the liquidity of the banking sector. Ghanaian authorities will have to follow the extended credit facility: an IMF-approved three year arrangement for Ghana equivalent to $918 million, in support of the Ghanaian authorities' medium-term economic reform programme.

Questions

What are your thoughts on recent economic policy developments in Ghana?

Is cross-border financing and the regional coordination of banking in West Africa progressing?

How is the Ghanaian private sector interacting in public policy formation in Ghana?

Kweku Bedu-Addo

Frustrations about the Ghanaian economy remain, but this is amidst growing signs of change. For example, in the future Ghana's government may be financed based on its reserve performance in the preceding year. Ghana is also undergoing a generational shift, the impact of which is putting pressure on the government.

It is not the cross-border movement of capital that needs improving, but the free moment of people and goods. Efforts must be made to align the mobility of people and goods with the Economic Community of West African States (ECOWAS) protocol.

Policy predates and drives investment. Therefore the sounder the policy, the more investment the economy will attract. Governments tend to operate slower than private corporations, and it should be acknowledged that political motivations do not always align with the economic or financial motivations of private firms.