

Industry Outlook

2024

(Resilient Growth Trajectory)

GAB Research

Authored by:

Lawrence Sackey
(Research Manager)



Introduction

The Ghanaian banking industry has been the fulcrum of economic stability, financial inclusion, investment, policy impact, innovation, and technology development. There has been tremendous growth in bank account ownership in the country since 2013, reflecting the projected 78 percent penetration rate by 2028. In fact, as of 2022, close to half of Ghana's population had an account at a financial institution (Statista, 2023).

However, the industry has been shaky since 2018 after the change in the minimum capital requirement to GH¢400 million, which saw the closure and merger of some banks. This has adversely affected the private sector, especially those who could not retrieve their funds from collapsed banks and individuals who lost their jobs in the process. This incident caused a steep drop in consumer confidence in the industry.

Consistent with the regulator's and researchers' almanacks, the industry experienced a boom in the following year. However, this rebound was short-lived as the advent of COVID-19 caused significant credit risk and economic contraction. Regulatory adjustments such as moratoriums on loan repayments, liquidity support, adjustments to capital adequacy requirements and cash reserve ratio, deferments of dividend payments, etc. have temporarily helped the industry weather the storm in 2020 through 2021.

However, the lingering effects of COVID-19, the Russia-Ukraine war (which has partly affected the global supply chain), macroeconomic instability (which was fueled primarily by global economic climate and fiscal indiscipline), high interest rates, reduced money supply, more assertive regulations, and climate change have become disruptive forces that are reshaping the foundational architecture of the banking industry.

In spite of these headwinds, the banking sector exhibited remarkable ebullience, with financial institutions showing enthusiastic growth and resilience in adapting to changing market conditions. Further, the IMF credit facility and its conditionalities, such as fiscal consolidation, debt

minimization (through DDEP), and increased revenue generation through taxation, are in full force. And it is expected to reverberate the economic downturns in 2024 through 2027. Amidst stable macroeconomic projections, rising geopolitical tensions, intense election schedules in 2024, climate change concerns, and a potential fiscal-monetary policy disconnect, the central inquiry is: what does the landscape hold for the Ghana banking industry in 2024? This presentation offers an outlook on the Ghanaian banking industry in 2024, outlining essential strategic measures to foster resilience and robustness in the face of diverse global economic volatilities.

Global Outlook

Macroeconomic Indicators

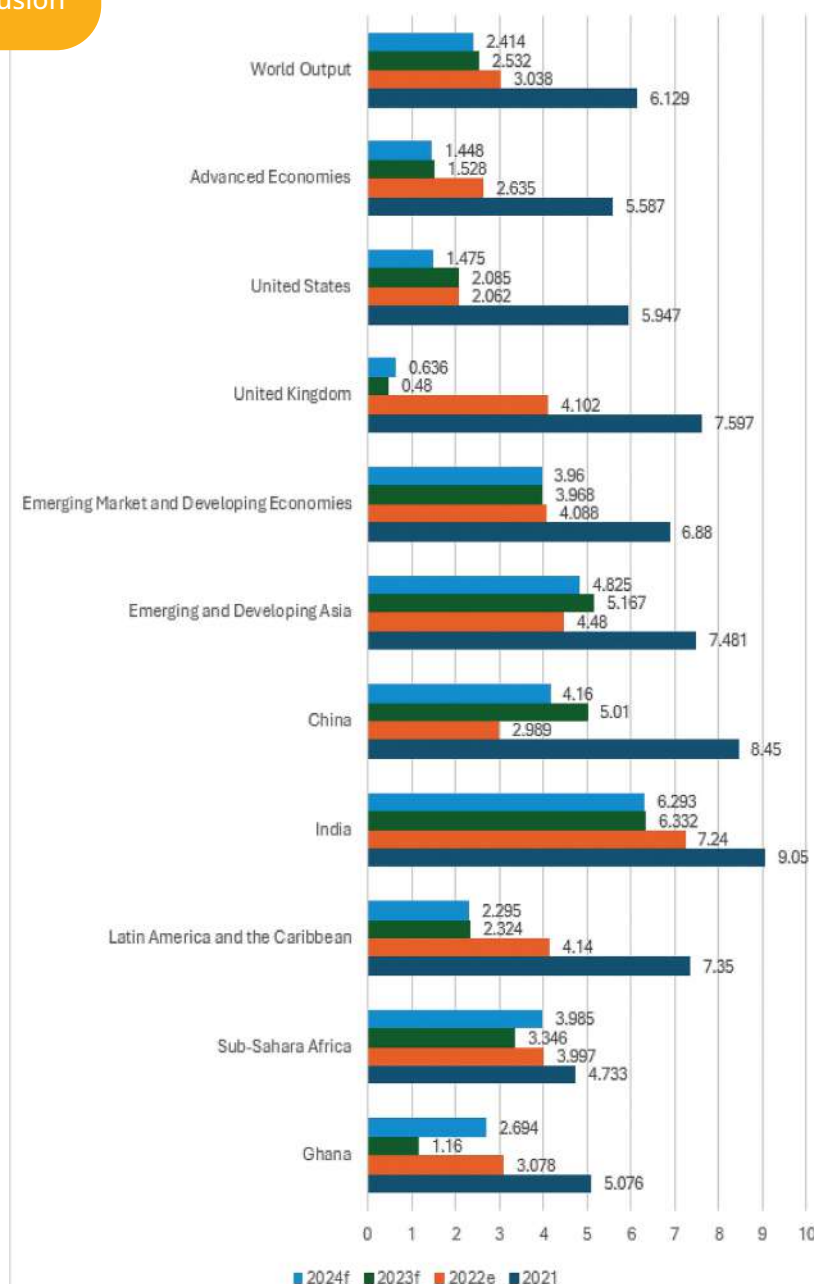
Growth:

Global growth, according to the IMF (as illustrated in Figure 1), is projected to slowdown from 3.04% in 2022 to 2.53% in 2023 and 2.4% in 2024. These forecasts do not differ significantly from those of Fitch Solutions, which predicted a 2.6% and 2.1% growth rate for 2023 and 2024, respectively. Amongst the key driving forces behind the sharp slowdown in economic activity is the growth rate

in advanced economies, which are expected to experience economic decline as a result of tightening policies that are intended to douse inflationary pressures that come with economic recovery in 2021. The decline in economic growth in advanced economies will be largely driven by a significant slowdown in US growth from a projected 2.08% to 1.48% in 2024. However, growth in emerging and developing economies in 2024 will not vary significantly from 2023 output. Major giants—China and India—in the emerging markets are also projected to experience a minute decline in economic growth in 2024. Economic growth in China and India is tipped to decline from 5.01% and 6.33% in 2023 to 4.15% and 6.29%, respectively. Growth in emerging and developing economies is projected at 3.96%, and this will partly offset the significant economic decline in advanced economies, hence causing a mild global economic decline of 2.41% in 2024.

Sub-Saharan Africa (SSA) on the other hand is projected by the IMF to experience economic recovery from 3.35% growth rate in 2023 to 3.98% in 2024; closer to the 10-year pre-pandemic average of 4.07% (See Figure 2). The decline in economic growth in SSA in 2023 was as a result of huge debt burden on most SSA countries and tighter monetary

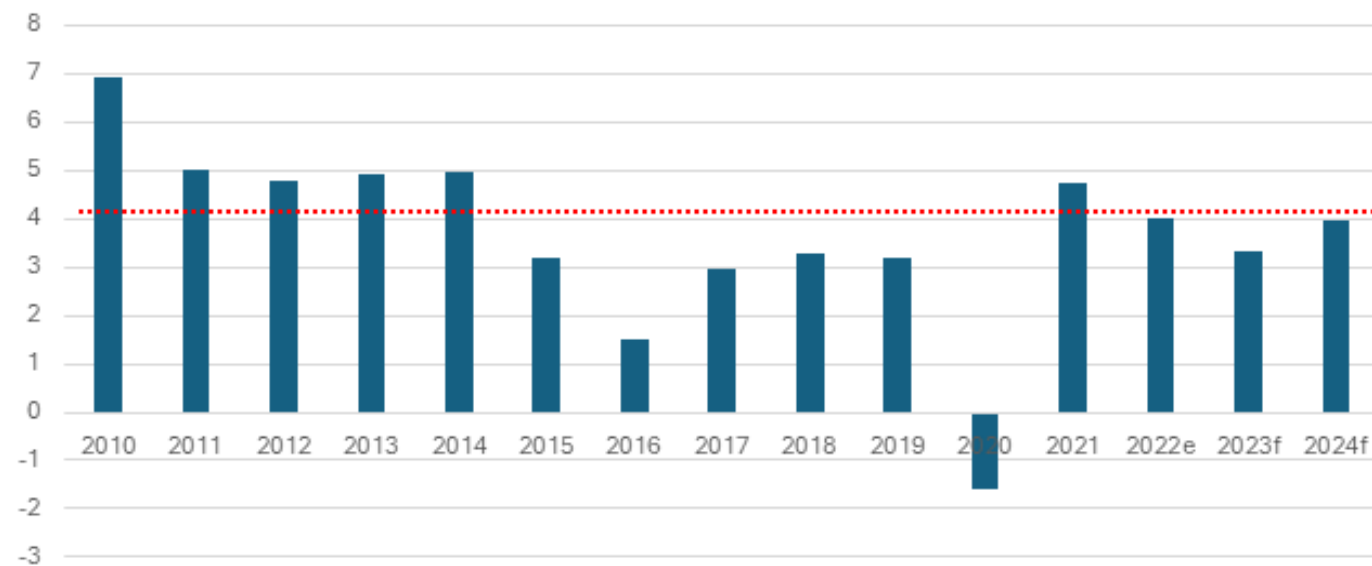
Figure 1: Global Growth Outlook



policy which has kept currencies under pressure, adding to inflationary pressures, and eroding purchasing power and corporate investment. However, anticipated growth in East and Central African region is projected to fuel growth in SSA. However, recent clashes and unrest in DR Congo may undermine the projected growth.

In the case of Ghana, IMF projected growth to decline to 1.16% in 2023 due to contractionary economic policy under the IMF programme, and its economic recovery is anticipated to set-in in 2024 with a growth rate of 2.69%. Stronger Economic activity in 2024 will increase demand for imported goods and services, which will narrow the country's trade surplus and drag on economic growth. However, the functionality of Senuo Oil Refinery may counter the path of economic decline, and also reduce the level of depreciation of the exchange rate and inflation which is often spurred by the price of crude oil.

Figure 2: Real GDP Growth Outlook for Sub-Saharan Africa



Key Drivers of Growth in Ghana

Upside Drivers

Net exports and fiscal consolidation will be the driver of Ghana's economy in 2024.

- The country's export growth would be strengthened by the rise in production of its key commodities, including gold, oil, and cocoa.
- Formalization of artisanal and small-scale gold mining.
- Potential mining of lithium
- Operationalising Senuo Oil refinery, and revamping Tema Oil Refinery
- Government support for SMEs and the private sector as stated in the budget.

NB: It is important to explore the economic capacity of other crops such as cassava, yam, and maize which could contribute significantly to growth instead of relying on the traditional export items such as gold, oil and cocoa.

Downside Drivers

- Fiscal slippages as a result of election
 - ▶ High debt and budget deficit (presently, despite the DDEP, our debt levels are still unsustainable.
 - ▶ Lower Investments as a result of lower credit growth due to government reliance on the money market for credit.
- Subdued private sector activity amid still-high inflation, high interest rates and rising taxes will lower import demand, and production capacity.
- Passing of the anti-LGBTQ+ which could affect tourism in the short-run, but long-run effect will be negligible.

Implications of Growth Outlook on the Banking Industry in Ghana



NB: The following may pose a significant challenge to the above transmission mechanism:

- ▶ Non-performing loans (NPLs)
- ▶ Unorthodox revision of the short-term interest rate (T-bill rate).
- ▶ High average lending rate.

Inflation:

Growth and recovery-induced policies post COVID-19 has caused significant growth in 2021 but has also caused inflation to skyrocket in 2021 and 2022. Though inflationary pressures are projected to douse in Advanced Economies (4.64%), and emerging market & developing economies (8.48%) in 2023 and 2024. However, Ghana and the sub-region are projected to have high inflations of 42.19% and 15.75% respectively at the end of 2023; and a sharp decline in 2024 which will be associated with economic recovery.

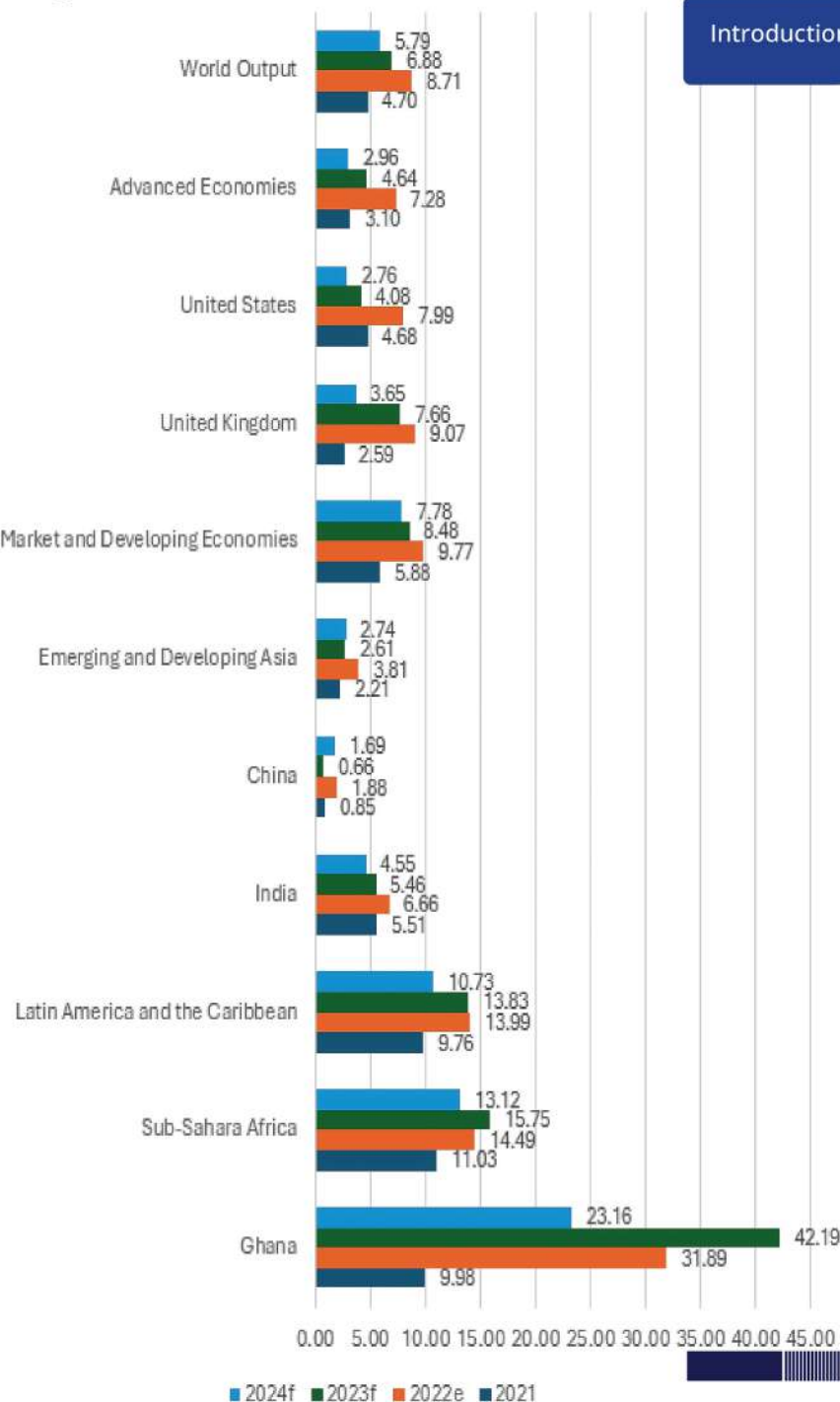
Globally, inflationary pressures have begun to abate, reflecting softening demand and easing commodity Prices. Global growth will undershoot consensus expectations in 2024 as the lagged effects of monetary policy tightening in 2023 will filter through. Among the advanced economies, the

US will continue to outperform Europe. And while China's policy-induced recovery is set to continue in the near term, strong structural headwinds will put the economy back on a weaker track by the second half of 2024.

The subdued growth environment is likely to bring inflation back to central banks' targets sooner than most anticipate. While the world economy should essentially experience a soft landing from the monetary tightening cycle in 2023, it is anticipated that global growth will undershoot consensus expectations in 2024. With inflation set to fall close to – or actually reach – central bank targets in year, 2024 should also be a year of broad-based cuts in policy interest rates which has a bi-directional relationship with inflation.



Figure 3: Inflation Outlook



Introduction

Global Outlook

Politics

Industry Performance

Challenges & Opportunities

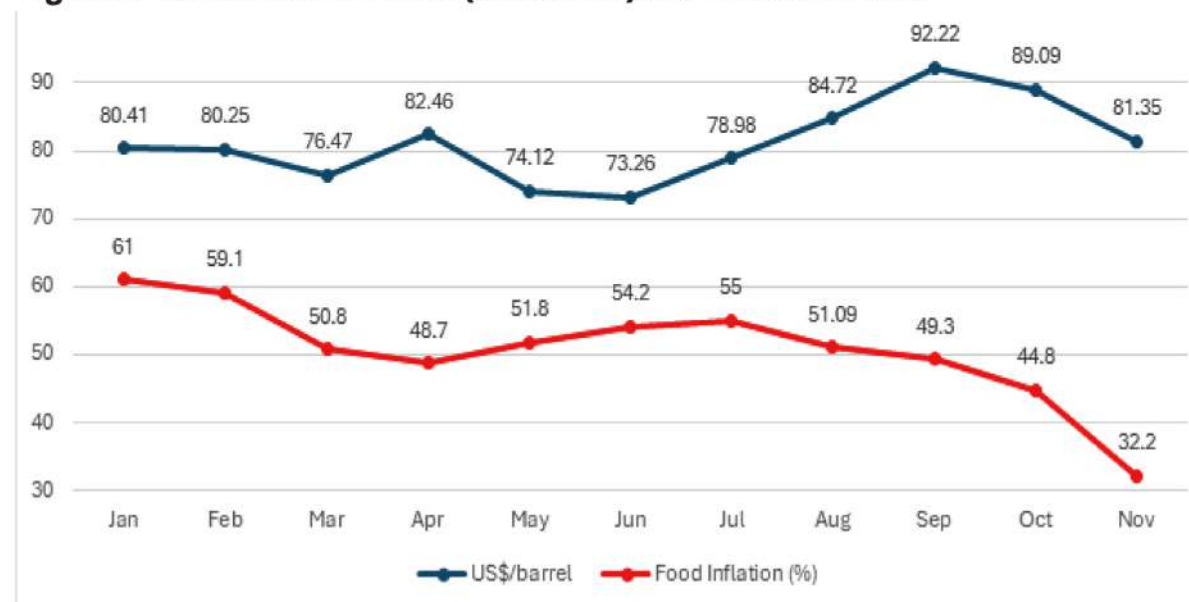
Conclusion

Development in Crude Oil and Food Prices

The rise in end-of-year inflation in 2022 was driven by movements in food prices. Food inflation increased substantially to 59.7% in December 2022 from 12.8% in December 2021, while non-food inflation increased to 49.9% from 12.5% over the same period. (GSS, 2023). Projected average inflation for 2023 was 42.19%. However, end-of-year inflation was 23.2% with food inflation (28.7%) accounting for highest variability and movement in the general price levels, as compared to non-food inflation (18.7%).

There appears to be a historical link between the prices of energy (crude oil) and agricultural products. Fuel a major of cost component of food production (eg. transport cost); further, as fuel prices rise, so does the demand for biofuels, which are the only non-fossil liquid fuels able to replace petroleum products, thus raising the price of food. From Figure 4, for example, it is evident that food prices partly responds to oil price changes.

Figure 4: World Crude Oil Prices (US\$/barrel) and Inflation in 2023



Oil prices increased from US\$80.41 per barrel in January 2023 to US\$92.22 in September before falling sharply to US\$81.35 in November. Overall, average oil prices decreased from US\$97.1 in 2022 to US\$81.21 in 2023. Thus, oil price changes between 2022 and 2023 generally favoured oil importers while disadvantaging oil-exporting economies. Ghana being a net-importer of oil, it is not surprising to see inflation dip marginally in 2023 (especially in the second half of 2023) compared to 2022.

Other Drivers of Inflation

Upside Risk

- The relative stability in the exchange rate,
- Moderate tightening of monetary policy,
- Fall in global inflation



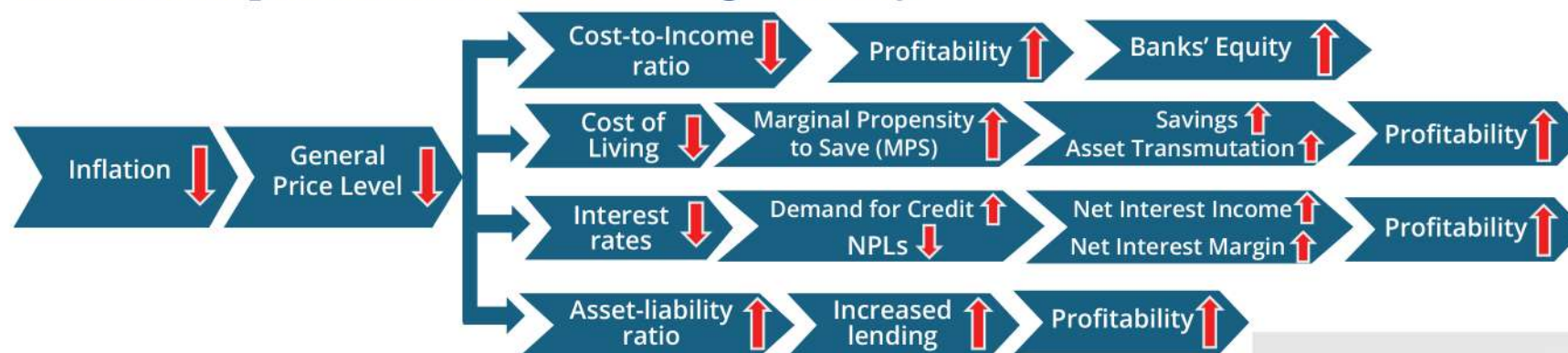
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Downside Risk

- The lingering effects of the 2.5 % increase in VAT, excise tax, and utility tax, will make it difficult in influencing a downward trend in inflation.
- Exchange rate volatility
- Crude oil price escalating. This will however abate if Sentuo Oil refinery is fully operational.
- Bad weather and food production. Global temperatures are rising rapidly and this poses a threat to food production.
- Shocks to global supply chain.

2

Inflation Implications for the Banking Industry



NB: The following may pose a significant challenge to the above transmission mechanism:

- **Expectations:** expectation of inflations will cause producers/sellers to be reluctant in reducing price levels.
- **Sticky Price:** Generally, price is sticky downwards, therefore the fall in the persistent increase in the general price level not cause a proportionate decrease in prices.





Interest Rate:

Nearly all nominal rates were higher in 2023 than in 2022. Meanwhile 2023 real rates fell appreciably below their respective values in 2022, on account of the higher inflation rate in 2023. Average commercial banking lending rate for the past 13 years in Ghana has generally been high; and it has been the highest compared to neighbouring countries in the ECOWAS region. After the IMF credit facility in 2009 through 2010, average commercial banks interest rate dipped narrowly from 29.93% to a trough of 25.53% in 2022; this was associated with significant growth rate of 7.77% (2010), 13.95% (2011), and 8.43% (2012).

However, economic growth rate began to decline steadily from 7.24% (2013), 2.86% (2014), to 2.12% (2015); this was associated with increasing interest rates, skyrocketing inflation, deteriorating exchange rates, and ballooning debts (See Figure 5 and Table 1). Even with domestic debt restructuring, and government inability to pay external creditors, our debt levels still remain unsustainable (84.1% of GDP), and this raises concerns about the structural robustness of the Ghanaian economy. Another IMF deal was signed in 2015 and extended to April 2019. This period saw a significant decline in commercial banks' lending rate from 28.62% (2015) to 23.52% (2019); the rate dipped further to 20.61% (2021) and

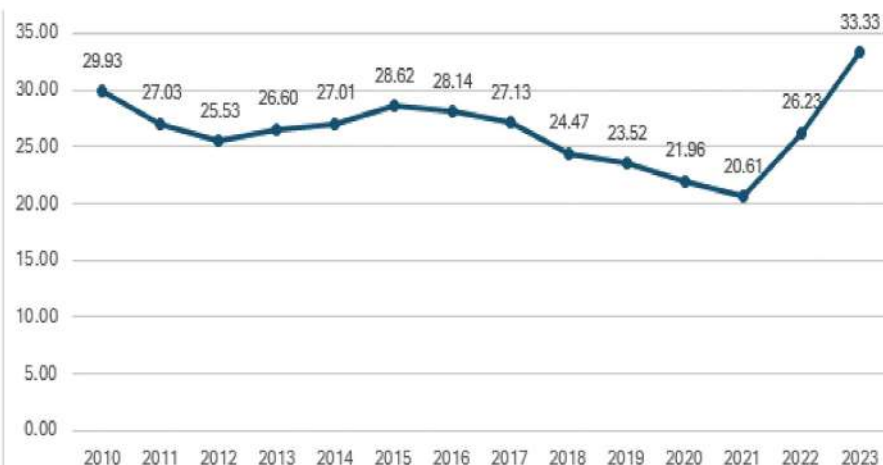
begins to rise to a new apex of 33.33%. The data presupposes that, out politicians are not committed and ready to take the hard decisions that will create a temporary discomfort for the citizenry in the short-run, and a perpetual stable growth in the long-run; unless their hands are forged by the IMF. This is simply because they don't want to lose election, hence our economic malady are continuously massaged instead of being treated.



Table 1: Macroeconomic Indicators

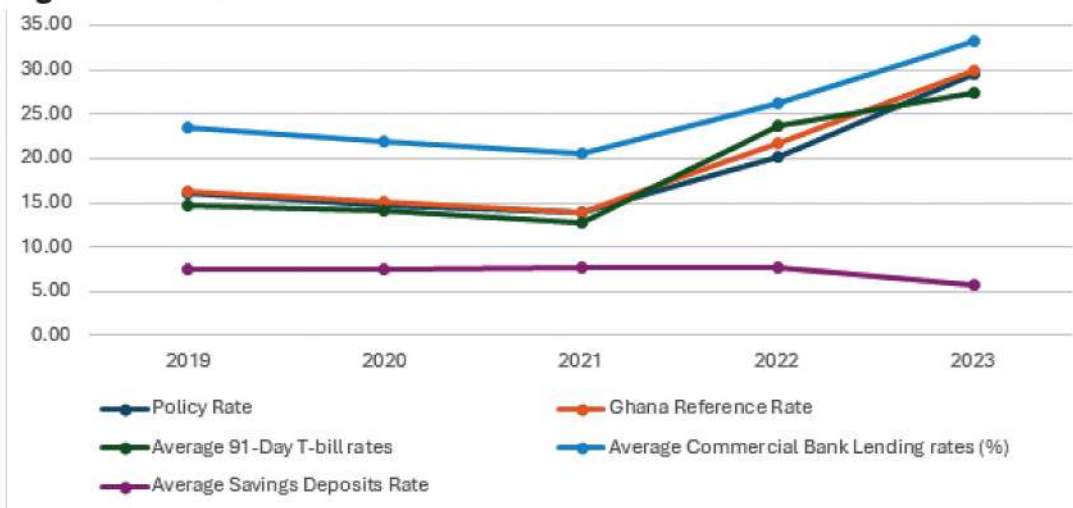
Year	Average Commercial Banking Lending rates (%)	Growth Rate (%)	Real GDP (\$B)	Inflation (%)	Debt-to-GDP (%)	Exchange Rate (LCU&\$%)
2010	29.93	7.77	93.95	6.70	34.51	1.43
2011	27.03	13.95	107.05	7.68	31.26	1.52
2012	25.53	8.43	116.07	7.07	35.35	1.82
2013	26.60	7.24	124.48	11.67	42.93	1.98
2014	27.01	2.86	128.03	15.49	50.11	2.90
2015	28.62	2.12	130.75	17.15	53.90	3.71
2016	28.14	3.37	135.16	17.46	55.94	3.91
2017	27.13	8.13	146.15	12.37	56.98	4.35
2018	24.47	6.20	155.21	9.84	61.98	4.59
2019	23.52	6.51	165.31	7.14	58.34	5.22
2020	21.96	0.51	166.16	9.89	72.34	5.60
2021	20.61	5.08	174.59	9.98	79.16	5.81
2022	26.23	3.08	179.97	31.89	92.38	8.27
2023	33.33	1.16	182.05	42.19	84.91	11.02

Figure 5: Average Commercial Bank Lending rates (%)



The general picture of the interest rates in 2022 and 2023, therefore, appears to be unfavourable one, in that higher past inflation may have increase inflationary expectations, resulting in higher nominal rates generally (see Figure 6), however, average savings deposits rate has been insignificant, and continuous to decline, widening the interest spread. A nominal average lending rate of 33.75% at the end of 2023 is too high, especially compared with much lower rates globally. Nonetheless, the very high nominal rate suggests that the risk premium of investment remains high in Ghana, implying the need to improve macroeconomic stability and the business environment.

Figure 6: Interest Rates



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Rising interest rates which is often fueled by high inflation, raises questions about the effectiveness of inflation-targeting as an antidote to dousing inflationary pressures, or whether central banks should now consider a blend of interest rate and inflation targeting or other robust macroeconomic tools. Deloitte's estimates for 2023 indicate a substantial decrease in interest rates in 2024. This is due to central banks worldwide adjusting their monetary policies throughout the year. According to the current predictions from the Federal Open Market Committee (FOMC), it is anticipated that the federal funds rate in the United States would stay high, at or above 550 basis points, until 2024. However, there is a possibility that it may decrease to a range of 450 to 500 basis points during the second half of 2024. The European Central Bank (ECB) is anticipated to initiate a reduction in interest rates, given that the ECB policy rate now stands at 3.75%, matching the peak in 2001. Once again, it is projected that the Bank of England will decrease the policy rate during the initial six months of 2024, following a record-high of 5.75% by the end of 2023. According to TD Economics' Canadian Economic Quarterly Forecast, the Bank of Canada is expected to lower interest rates in the second half of 2024, following a period of rates exceeding 5%. Considering the semblance of Bank of Ghana policy strategy to that of advanced economies, all things being equal, the monetary policy rates in 2024 will be slashed significantly.

The Bank of Japan has maintained the policy rate close to zero, in contrast to other central banks; but, at its July 2023 meeting, it announced that it would modify the bond yield curve control methods to react more nimbly to price pressures.

Interest rates Implications for the Banking Industry

Policy rate ↓

Interest rate
(lending rate) ↓

Debt servicing
burden ↓
NPLs ↓

↑ Loan Book
Net Interest Income ↑

↑ Banks' Overall
Performance /
Profitability

Exchange Rates:

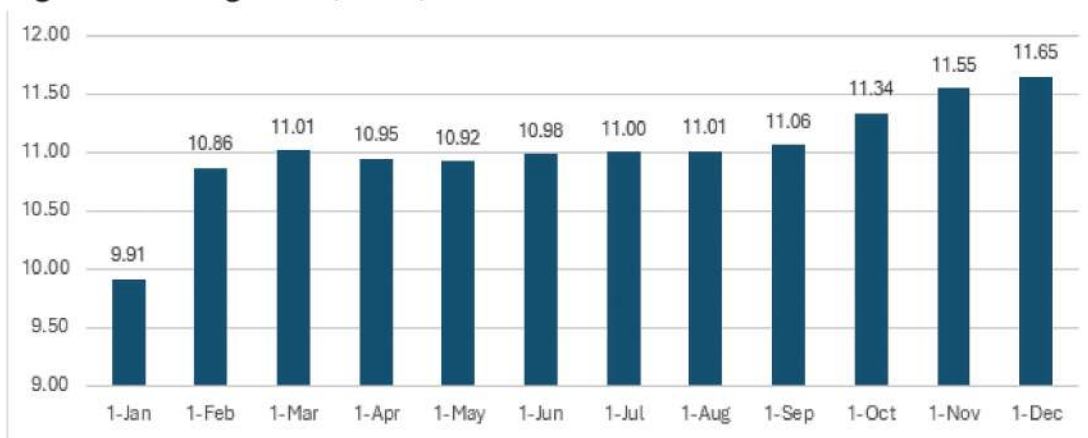
Efforts by the central bank to maintain the fluctuation of the Ghana cedis against the major trading currencies were apparently quite unsuccessful in 2023, just like in 2022. The annual average exchange rates of the cedis against the US dollar, British pound, and Euro on the inter-bank market in 2022 were Gh¢8.4, Gh¢10.3 and Gh¢8.8,

compared with the 2021 respective rates of Gh¢5.8, Gh¢8.0 and Gh¢6.9. The cumulative depreciation rates on the interbank market in 2022 were 53.8%, 45.5% and 46.8%, respectively rates were much higher in 2022 than in 2021 when the respective rates were 4.1%, 3.1% and -3.5% (appreciation) against the US dollar, the British

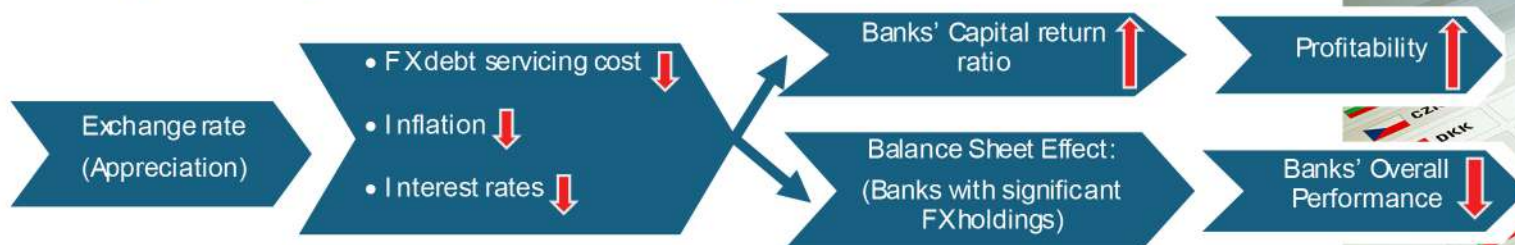
pound and the Euro (BoG,2023).

In 2023, the annual average exchange rate on the inter-bank market increased by 33.25%, i.e. from 8.27 in 2022 to 11.02 in 2023 (See Table 1 above for details). However, the random spikes and volatilities that was associated with the exchange rate in 2022 was generally absent in 2023 as the the country's external buffers have increased, providing support for exchange rate stability. This notwithstanding, the exchange rate has generally depreciated by 33.25%, even though the Ghana's External debts have not been serviced in 2023. The situation would have been worse if external creditors were paid (which will be in dollars). According to the Bank of Ghana (2024), an improvement in foreign exchange inflows is anticipated through increased disbursements from the IMF-ECF, the acquisition of funds from the cocoa syndicated loan, and anticipated funding from the World Bank's Development Policy Operations. The Bank's gold for reserve programme, repatriation of foreign exchange from mining and oil companies, and a decrease in debt service payments are expected to further bolster reserve accumulation, contributing to an improved outlook for the external sector.

Figure 7: Exchange Rate (US\$/¢)



Exchange rate Implications for the Banking Industry



GLOBAL POLITICS

GLOBAL
POLITICS

LAWS
Group
LEGALISM
Autocracy
Oligarchy
Confederation
Citizen
Parties
GROUP
Vote
Negotiation
Totalitarianism
System
DEMOCRACY
Power
Monarchies
PEOPLE
Group
CONSTITUTIONAL
POLITICAL

Election Year

According to the Time Magazine, 2024 is not just “an” election; but perhaps “the” election year. They observed that, globally, more voters than ever in history will head to the polls as at least 64 countries (plus the European Union)—representing a combined population of about 49% of the people in the world—are meant to hold

national elections, the results of which, for many, will prove consequential for years to come.

In Taiwan, for example, who becomes the next president will fundamentally shape Beijing’s approach to the self-governed island it has repeatedly threatened with invasion. Fortunately or unfortunately, China’s least preferred candidate – Lai Ching-te won the presidential elections and this set the tone for subsequent developments

between China and Taiwan. The outcome 2024 elections especially within Ghana’s bilateral partners will chatter a new course in Ghana’s economic development.

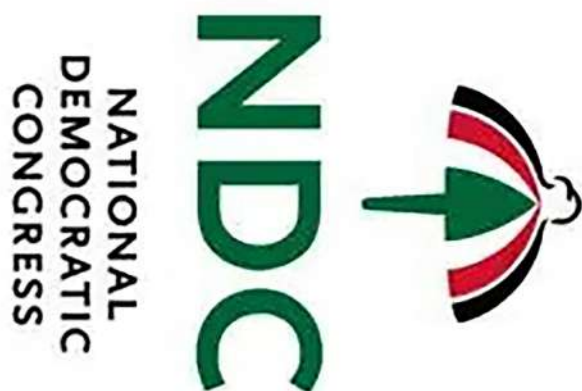
The US election will be the focal point of international focus. The potential return of former president Donald Trump to office may lead to concerns regarding changes in US trade, taxation, environmental, diplomatic, and defence policies. Even if Trump loses the election, his expected role as the Republican nominee might lead to significant global uncertainties due to his campaign rhetoric and fluctuating position in opinion surveys. The outcome of the US election is now uncertain because of the close competition.

Image 1: Map of Countries having General Elections in 2024



Source: Times Magazine (2023)



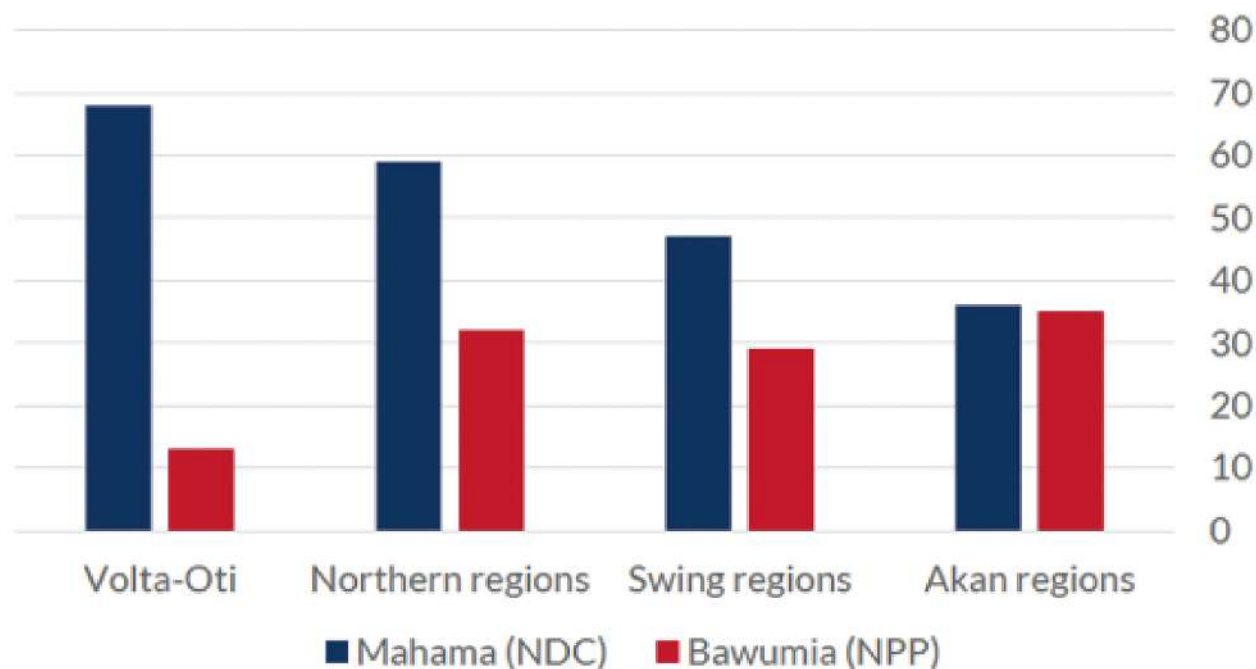


Ghana's Election

According to BMI Research (a Fitch Solutions Company), the ruling party – NPP is unlikely to remain in power following 2024 elections. They posited that, the opposition, National Democratic Congress (NDC) will likely win the December 2024 elections. According to BMI polling data analysis in October 2023, the NDC's leader,

John Mahama, is not only leading in the Volta, Oti and Northern regions (which typically favour for the NDC), but also in swing and Akan regions (which typically lean towards the NPP). However, it's worth noting that, a lot can happen in 2024 which can influence voters position or choice significantly.

Figure 8: BMI Research Projections on Ghana's Elections



Fiscal and Monetary Policy Disconnect in an Election Year



Macroeconomic stability through prudent fiscal policies appears to have been at the heart of the government's agenda under the IMF programme to promote economic growth, especially as it established the Fiscal Responsibility (FR) targets of at most 5.0%, 65.0%, and less than 10.0% respectively, for fiscal deficits (as % of GDP), debt (% of GDP), and inflation. Ghana's fiscal deficits skyrocketed in 2012, large because of the implementation of the Single Spine Pay Policy, which led to a huge public wage bill. Since then, however, there have been attempts to reduce the deficits, which have indeed been trending downward. The objective of the government in 2022 was to limit the fiscal deficit (including grants) to 6.6% of GDP, but the outturn was 9.9%, far exceeding the objective and FR target of 5.0%, though less than the 2021 value of 12.1% (IMF, 2023).

The targets for 2024 are; 2.8% overall real GDP growth, non-oil real GDP growth of 2.1%, inflation rate of 15%, Primary balance of 0.5% of GDP, and Gross International Reserves to cover not less than 1.7 months of imports (*See Figure 9 for details*). Government intend to reset the economy through; aggressive domestic revenue mobilisation, fiscal discipline, commitment to climate change

and energy transition, protection of the poor and vulnerable, investment in tourism, and rationalisation of expenditure.

Government intends to embark on rigorous domestic revenue mobilisation measures, this is based on the country's inability to access credit from the international market due to debt distress and poor credit ratings. Ghana's tax revenue to GDP ratio is one of the lowest in Africa. The highest tax-to-GDP ratio reported for Ghana since 2000 was 14.2% in 2021, with the lowest being 7.8% in 2000 (OECD, 2023). Previous government shy away from taxation to external debt instruments because of elections. However, this present government was bold enough to introduce new taxes like the e-levy in 2022. However, due to poor consultation regarding the tax rate, and the prolonged impasse in parliament, the over-ambitiously projected revenue target on e-levy was missed. It was projected to rake in about GH¢6.94 billion in 2022, yet it realised a projected outturn of GH¢592.1 million, which was less than 10% of the budget amount and lower than the revised target of GH¢611 million (ISSER, 2023).

The fall in revenue targets partly caused by under-performance of company taxes, e-levy, personal income taxes, and self-employed income taxes

caused tax revenue as a percentage of total revenue & grants to dip from 80.7% in 2021 to 76.85% in 2022 (*See Table 2 for details*). The implementation of the IMF programme has caused significant increased in direct taxes (40% of total tax revenue & grants) as of the second quarter of 2023 (MoF, 2023). The increment in the VAT rate has also caused a significant increase in domestic (11.1%) and imports (8.2%) VAT tax revenue.

Though it is an election year, government under the IMF programme is bent on achieving a primary balance of 0.5% of GDP in 2024. Additionally, data from Table 1 have shown that government under IMF programme has always remained committed to the core of the programme, hence the likelihood to experience fiscal and monetary policy disconnect in an election year is slim. Though monetary policy rate is cautiously relaxed to douse inflationary pressures, government consistent borrowing in the money market may trigger interest rates hikes and its associated inflationary impact.



Figure 9: Fiscal Targets for 2024



Introduction

Global
Outlook

Politics

Industry
Performance

Challenges &
Opportunities

Conclusion

Table 2: Composition of Government Revenue, 2012 – 2022(% of Total Revenue)

Items	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023*
Total Revenue & Grants											96.8b	59.3b
	%	%	%	%	%	%	%	%	%	%	%	%
TAX REVENUE	79.89	76.38	81.05	82.25	79.07	80.64	81.25	80.1	80.6	80.7	76.85	80.6
Direct Taxes	35.70	33.64	36.49	29.66	27.99	33.53	40.38	42.5	43.0	36.3	40.3	40.0
Indirect Taxes	22.62	25.80	26.98	33.82	37.59	33.39	32.32	32.1	32.3	35.3	31.0	35.3
Excise	4.71	3.71	3.13	8.18	11.20	7.73	7.87	7.3	8.0	8.5	6.4	4.6
VAT	17.91	17.71	19.62	21.31	21.91	21.39	19.12	17.5	16.7	17.8	15.9	19.2
o/w VAT (Domestic)	6.84	7.12	8.02	9.42	9.29	8.90	8.56	9.8	9.6	10.2	9.24	11.1
VAT (Imports)	11.07	10.59	11.60	11.89	12.62	12.49	10.56	7.7	7.1	7.6	6.3	8.2
International Trade Taxes	12.83	16.94	17.58	18.76	13.49	17.02	13.12	10.1	10.0	9.9	8.85	10.16
Imports	12.17	11.91	12.50	10.49	12.67	17.02	13.12	10.1	10.0	9.9	8.85	10.16
Exports	0.67	0.53	1.33	1.26	0.83	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Import Exemptions	5.02	4.49	3.75	7.01	8.79	7.98	4.40	4.6	4.7	5.1	4.14	1.42
NON – TAX REVENUE	18.40	22.77	17.92	16.77	15.01	13.33	14.03	14.2	12.1	11.3	16.48	13.91
Income and Fees	6.85	9.34	6.37	8.14	4.66	6.20	7.22	6.8	4.8	4.6	0.68	0.71
GRANTS	7.48	2.34	3.35	9.16	3.51	3.84	2.44	1.8	2.2	1.7	1.23	1.06
OTHER REVENUE MEASURES	5.43	4.39	3.28	3.47	3.44	8.37	7.13	6.8	8.2	5.7	4.9	3.45
GRAND TOTAL	100	100	100	100	100	100	100	100	100	100	100	100

*Provisional Outturn for Q1 and Q2, 2023.

Source: ISSER (2022), Ministry of Finance Jan – Dec Fiscal Data (2023) and Government of Ghana 2023 Budget Statement and Economic Policy.

Overall Real GDP Growth of

2.8%

Non-Oil Real GDP Growth of

2.1%

End-December inflation rate of

15%

Revenue Target

GH¢176.4
billion

Expenditure Target

GH¢226.7
billion

Geopolitical Risks

Russia-NATO Tensions:

The ongoing Russia-Ukraine war remains a substantial geopolitical threat in 2024. The situation has caused a humanitarian crisis and increased the potential risks in global money flows, trade, and commodity markets. Geopolitical tensions between NATO and Russia have escalated due to Russia's invasion of Ukraine, leading to the most dangerous NATO-Russia ties since the Cold War. The relationship is being strained by economic sanctions on Russia and the financial and military aid provided to Ukraine by NATO member countries. With neither party appearing to be on the verge of achieving a definitive win in the short term, and the chances of a ceasefire or resolution seeming unlikely, the conflict continues. Although it occurs, there is always the possibility of intentional or unintentional escalation which will have a devastating impact on the global economy.

Israel-Hamas:

With Israel military campaign to eliminate Hamas from Gaza, it remains to be seen whether the conflict will escalate into a broader regional war. If it does, the global economic fallout could include a 1970s-style oil

shock, crashing stock markets, and deep stagflationary recessions. Presently, the seed of potential escalation has been planted as Iran-backed militia groups – Hezbollah in Lebanon, and Houthis in Yemen (who have launched series of attacks on Israeli and Western Vessels on the Red Sea) are binged on retaliation against Israel and the West, in order to stop the invasion at Gaza.

Red Sea Crisis:

Around 30% of the world's container shipping traffic passes through the Red Sea, with this also a key shipping route for oil and gas tankers, as well as bulk shipping. The attacks by Houthis rebels on ships has prompted shipping firms to re-navigate their vessels, away from the Suez Canal (a major East-West shipping route) around Africa via the Cape of Good Hope, redirecting more than USD200bn worth of trade flows since mid-November 2023. The re-route is adding time and cost to the shipping of goods, with multiple nations exposed to this disruption in global trade.

Conflict in DR. Congo:

The Democratic Republic of Congo (DRC or the Congo) witnessed a surge in violence in the latter months of 2023, particularly as the country approached its national elections scheduled for December 2023. The conflict intensified due to clashes among militant groups vying for



territorial control and access to natural resources, extrajudicial killings by security forces, political unrest, and escalating tensions with neighbouring Rwanda—largely centered around allegations of Rwanda’s support for militia groups in Congo. This multifaceted conflict has resulted in a significant loss of lives.

Beyond the reports of increasing civilian casualties in eastern Congo, the UN declared a record-high number of internally displaced people, reaching 6.9 million. The intensification of fighting has rendered a substantial part of the country unsafe for civilians. The continued escalation of this conflict in 2024 poses a substantial threat to investments in the Sub-region and risks hindering the ongoing efforts to enhance the operations of the African Continental Free Trade Area (AfCTFTA) in the sub-region.

Climate Risk:

Climate risk stands out as one of the most politically divisive issues globally and ranks among the most significant geopolitical risks in 2024. Its implications extend to national security and global stability, with the impacts of climate change already evident through extreme weather events, species extinction, rising sea levels, and escalating poverty in developing nations.

Introduction

Global Outlook

Politics

Industry Performance

Challenges & Opportunities

Conclusion

The consequences of climate change manifest in the form of more frequent and intense weather events, including hurricanes, droughts, floods, and wildfires. These events have inflicted damage on infrastructure and disrupted supply chains, resulting in resource scarcity and economic instability.

The change in climate patterns has led to diminished precipitation

levels in some parts of the world, contributing to water scarcity. This scarcity has heightened geopolitical tensions, notably seen in conflicts between countries such as Turkey, Syria, and Iraq. Sub-Saharan Africa, in particular, faces more frequent and severe droughts, reducing water availability for agriculture and drinking, further exacerbating challenges in the region.



Politics Implications for the Banking Industry

Politics

Election Year

Under IMF Programme

Fiscal & Monetary Policy Disconnect
(slim/unlikely)

Economic Recovery Attainable

Banking Industry Performance





Banking Industry Performance

Despite the shock and disruption from the banking sector clean-up, COVID-19 pandemic and the Domestic Debt Exchange Programme (DDEP), the Ghanaian banking sector remained robust and resilient due to innovative measures taken by banks alongside macroprudential regulations from the central bank. Total assets for the industry grew significantly at a compound annual growth rate (CAGR) of 18.77% from GH¢50.1 billion Ghana Cedis in 2015 to GH¢235.6 billion by the third quarter of 2023. The industry's total liabilities also increased significantly from GH¢42.8 billion in 2015 to a whopping GH¢207.9 billion by the end of 2023q3.

There has been a significant growth in deposits by customers and the level of loans and advances customers. From 2015 to 2023(q3), deposits grew at a CAGR of 20.21%, i.e. from GH¢34.4 billion to GH¢180.2 billion. Even when it became apparent that deposits will dip in 2023 as a result of the DDEP in 2022 where numerous market projections have hinted on low customer confidence in the industry, deposits increased significantly by 15.88% between 2022 and 2023(q3). Though loans and advances increased significantly between 2015 – 2023(q3), the rate of increment was slower compared to the rate of increase in deposits. The low loan-to-deposit ratio could partly be attributed

to the credit culture in the country which has caused NPLs to remain at elevated levels.

Further, the industry remained profitable amidst the aforementioned disruptions. Profit-before-tax (PBT) since 2015 (GH¢2.2 billion) has been expanding rapidly at an increasing rate till 2022 where the industry made a significant loss (GH¢-7.4 billion) driven ostensibly by the DDEP which caused huge impairments (GH¢-19.2 billion) in the industry. Due to the resilience and robustness in the industry, PBT bounces back to GH¢9.79 billion by the third (q3) of 2023. Return on equity also fell drastically in -29.30% in 2022, however, there was a resounding recovering of 35.60% at the end of Q3 2023. Total operating expenses in the industry has also been on ascendency, as it has almost trebled within the past eight years (*See Table 3 and Figure 10 for details*).

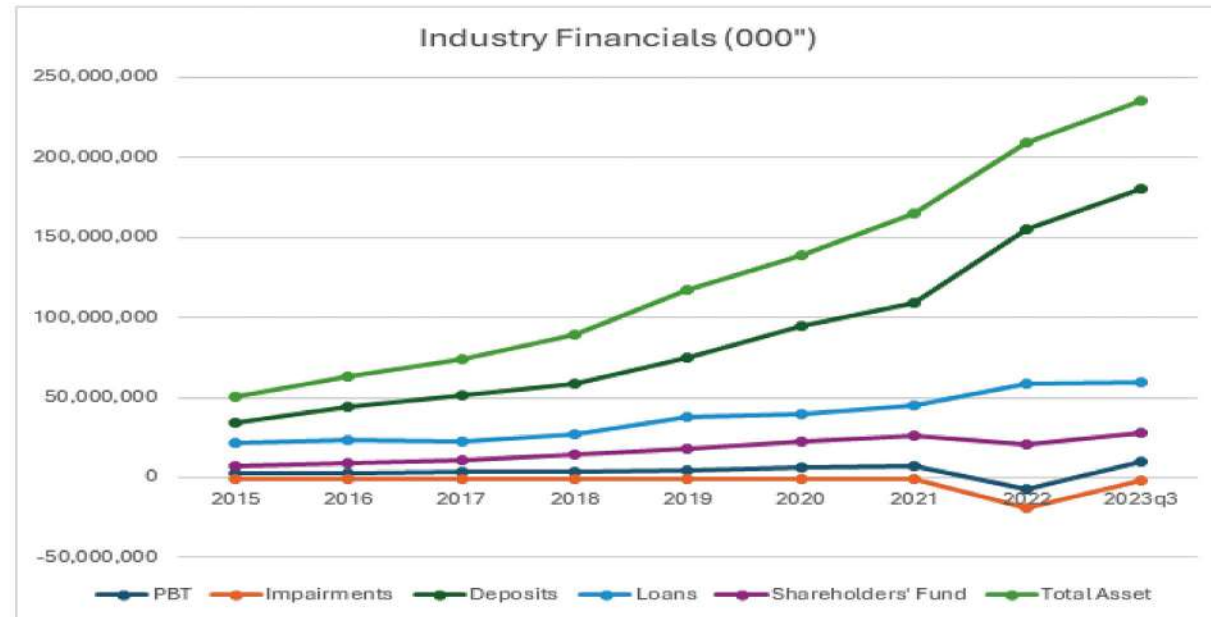
Again, non-performing loans (NPLs) which have been the bane of the banking industry is gradually reaching a pre-recapitalisation level in 2018. In 2018, industry NPL ratio was 18.2%, however, it dipped significantly in 2019 to 14.3% after a successful recapitalisation and cleaning up of the banking industry. It has taken an upward trajectory since 2019 till it reaches another peak of 18.0% in 2023q3.

Table 3: Industry Financials

Variables	2015	2016	2017	2018	2019	2020	2021	2022	2023q3
No. of Banks	20	20	20	21	22	22	22	22	21
	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Total Assets	50,085,499	63,490,455	74,388,376	89,168,537	117,206,255	139,172,064	165,142,840	209,020,445	235,621,882
Total Liabilities	42,816,659	54,790,975	63,719,172	75,024,677	99,022,631	116,525,323	139,456,855	188,446,892	207,992,564
Deposits from customers	34,397,433	43,751,924	51,106,629	58,590,514	74,545,038	94,889,036	109,270,952	155,544,293	180,238,048
Loans & Advances to Customers	21,336,939	23,288,673	22,625,309	27,111,895	37,428,782	39,232,585	44,651,991	58,943,045	59,945,392
Total Shareholders' Fund	7,268,840	8,699,480	10,669,204	14,143,860	18,183,623	22,646,739	25,684,458	20,573,558	27,653,646
Profit/Loss before Tax [EBIT]	2,213,407	2,530,687	3,378,905	3,710,731	4,593,853	6,438,701	7,508,759	(7,423,254)	9,791,062
Profit/Loss after Tax [EAT]	1,531,420	1,746,479	2,302,810	2,517,300	3,176,984	4,530,797	4,921,466	(6,021,719)	6,276,336
Impairment Loss on Loans, Advances & financial assets	(1,229,589)	(1,208,449)	(715,235)	(958,148)	(1,153,844)	(1,256,335)	(1,285,110)	(19,233,764)	(1,902,096)
Total Operating Expenses	(4,716,846)	(5,264,216)	(5,371,971)	(6,277,518)	(7,379,293)	(8,235,768)	(8,891,425)	(29,969,694)	(11,199,137)
Return on Equity				16.90%	20.90%	21.40%	20.60%	-29.30%	35.60%
NPL Ratios				18.20%	14.30%	14.80%	15.20%	14.80%	18.00%



Figure 10: Industry Financials



Challenges and Prospects on the Horizon for the Banking Sector

Challenges:

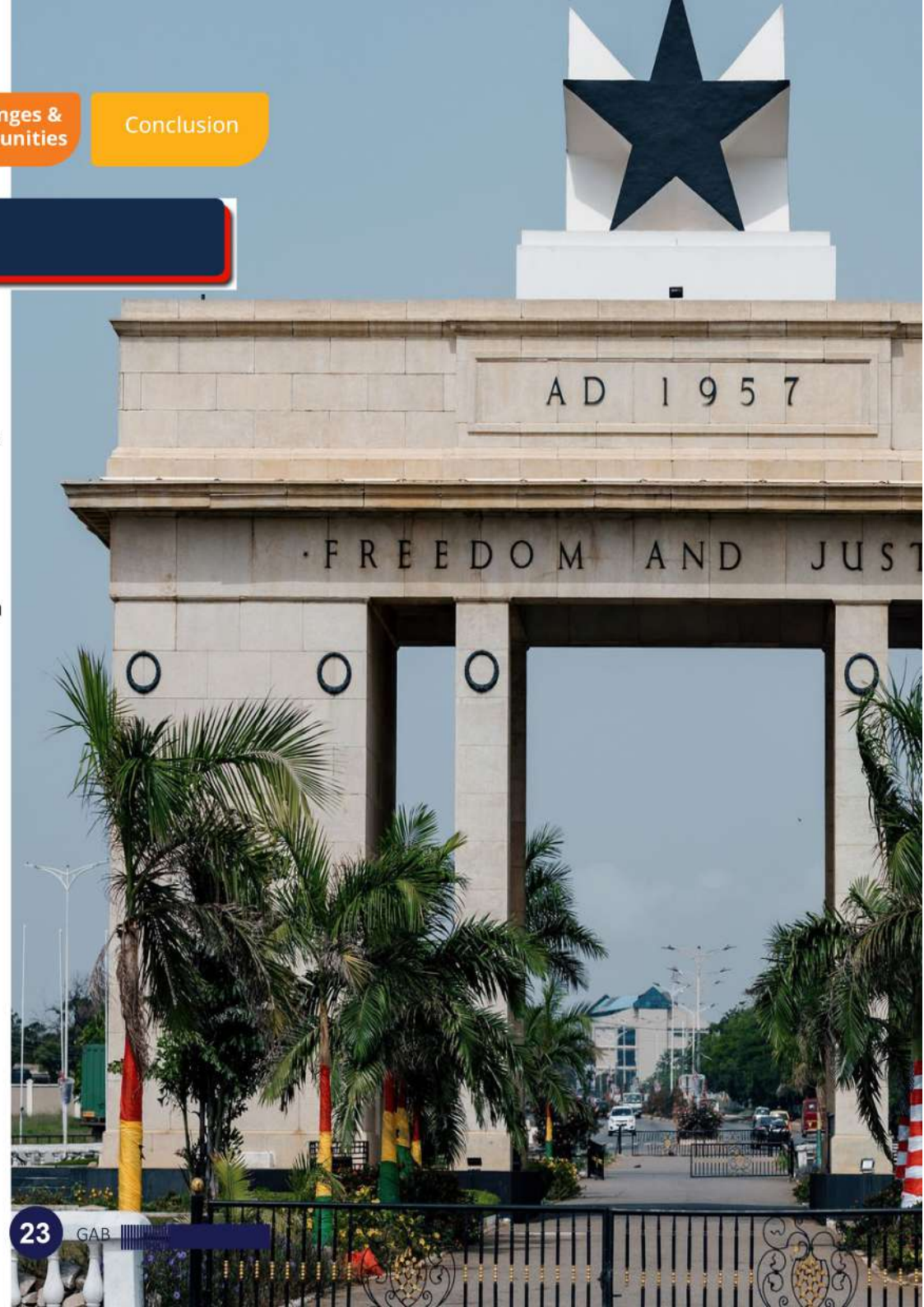
- A stress test last year suggests significant vulnerabilities exist among banks and nonbank financial intermediaries.
- Faced with rising funding costs and the need to act more prudently, there will be a potential cut down lending.
- Profit squeeze due to high operational costs, and tight fiscal environment.
- Capital deterioration as a result of low asset quality
- Government inability to access the international market may consistently put pressure on interest rates in the money market and its associated implications on inflation, and NPLs.

Coping Measures and Opportunities:

- Without the Financial Stability Fund, further regulatory forbearance may be required.
- Promptly identify changes in the business environment;
 - ▶ Be mindful of sovereign risk
 - ▶ Support recovery and diversification of the Ghanaian economy.
 - ▶ Increase investment in agribusiness (growing demand for domestic poultry, rice, soya etc), and support for value-added products from the agricultural.
- Streamline operational costs and avoid heavy investment in fixed capital
- Prepare and assess different options for adapting the business and risk strategy, financial and capital plan, and dividend policy.
- Economic recovery on course; but leakages (black market, capital flight, money laundering, corruption, etc.) and policy inconsistency may slow down growth. Hence, banks must be very tactful in their operations.

Conclusions

Broadly, economic recovery is bound to happen under the IMF programme, and its associated implications on the banking sector. The transmission mechanism expressed under each macroeconomic indicator were based on a ceteris paribus assumption. Given the dynamic nature of the business environment and the interconnected relationships between macroeconomic and market-based variables, which are constantly evolving, there is a need for consistent research and assessment to monitor the trajectory of economic and industry indicators.





GAB Research

Contact Information

030 2667138

Website:

www.gab.com.gh

Email:

info@gab.com.gh

Location:

No. 12 Tafawa Balewa St, North Ridge, Accra.

