Bank of Ghana closes seven banks in banking crisis

Ghana has over the past one year been embroiled in a banking crisis with the closure of seven banks, the assumption of two by GCB Bank Ltd and the consolidation of the others into a new one, writes *Etornam Nyalatorgbi.

Ghana is licking the wounds from its worst banking crisis ever. Seven bank closures within the space of one year, about 2,700 jobs on the line and government piling onto its debt 7.9 billion cedis ($1.7 billion) to pay for the difference between liabilities and assets of the collapsed banks to allow other lenders take them over.

Poor banking practices, coupled with weak supervision and regulation by the Bank of Ghana has significantly undermined the stability of the banking and other non-bank financial institutions,” Central Bank Governor Dr. Ernest Addison, said in March when he placed the now defunct uniBank Ltd. under the administration of accounting firm KPMG.

‘‘There was unusual forbearance by the Bank of Ghana, which resulted in the extension of significant amounts of emergency liquidity assistance to these ailing banks.”

It is not abnormal for banks to fall on the Central Bank’s Emergency Liquidity Assistance when they are short of cash to meet depositors’ demands once
a while. It is in the event of a bank consistently using this window to function as a financial institution instead of the normal practice of taking overnight facilities from other lenders that makes it problematic and draws regulator-probe. Just to be sure, such facilities from the lender-of-last-resort come at a punitive charge because under normal circumstances the interbank borrowing market should work for every bank.

Starting in 2015, UT Bank Ltd. took a total 860 million cedis and Capital Bank Ltd. received 620 million cedis in liquidity support from the Bank of Ghana. Coupled with rising non-performing loans and failure to meet capital adequacy ratios, the central bank was left with nothing but to ask state-owned GCB Bank Ltd. to take over their liabilities and selected assets in August 2017. Leading up to the (resolution) dissolution of five other privately-owned local banks in August this year, one of them, uniBank, alone took 3.1 billion cedis between 2015 and June 2018 of which some 1.6 billion cedis was uncollateralized, posing risk to the central bank itself, according Dr. Addison. Royal Bank Ltd. and Sovereign Bank Ltd. also sought and received significant emergency liquidity support from the central bank. In addition to weak capital adequacy ratios that failed to improve over time, uniBank, Royal Bank, Sovereign Bank, Beige Bank Ltd. and Construction Bank Ghana Ltd. were pronounced insolvent on August 1. This time round the government set up a new lender called Consolidated Bank Ghana Ltd., with 450 million cedis paid-up minimum capital, which assumed the liabilities and selected assets of the five failed banks.

Meanwhile, the government issued 2.2 billion cedis bonds to GCB Bank to meet its gap after UT and Capital Bank had been absorbed while Consolidated Bank Ghana got 5.7 billion cedis in bonds so assets could match liabilities assumed.

The bonds issued by the government together with other expenses to address the bank failures may shoot government debt to 72.4 percent of gross domestic product by the end of 2018, from 69.1 percent a year earlier, according to Moody’s Investors’ Service. Already, Ghana spends about a third of its tax revenue on interest payments. With rising debt, investors will likely become less willing to lend to government to execute budget programs and other development projects, unless the government attracts them with higher interest rates. Higher interest rates would exacerbate the problem of non-performing loans the industry is currently battling and cause banks to tighten credit, with the attendant impact on GDP expansion. By the end of June this year, 22.6 percent, or 8.7 billion cedis of total industry loans were non-performing, according to the Bank of Ghana.

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GDB Bank absorbed two of the banks

There was therefore adequate economic ground for the central bank to intervene to preserve confidence in the banking industry and curb systemic loss through depositors deciding to keep their funds in their rooms and break down of the cultured interdependence of banks. While the government may not have needed to cough up 7.9 billion cedis if the banks were allowed to fail and fold up on their own and depositors left to their fate, the cascading effect of that approach could have resulted into much higher cost to the economy and social fabric of the country as some of the failures were negligence on corporate governance by the banks.

Banks would start showing signs of weakness, poor corporate governance and poor credit practices well before their falling into trouble and beganning to ask for large amounts of emergency
liquidity support from the regulator. The question one therefore asks is why didn't the central bank pick any signals ahead of 2015 when the banks began depending heavily on the emergency facility to meet depositors' withdrawals? If they picked signals, what remedial actions did they instruct the banks to implement? If they did, was it followed through by the banks and if the banks did not, why were no major punishments meted until now that licenses have been revoked? Even if one bank was put under administration like uniBank was initially placed in March, that would have deterred a lot of the further wrong doing that later ensued.

Revelations after the crisis suggest that the central bank failed on almost all of the above questions, as Dr. Addison's comment already noted. It has emerged that Bank of Ghana promised to give advisers to those who took larger than normal amounts of liquidity support in 2015, to guide them on how to deploy the facilities efficiently, however, this was not done, said Ace Ankomah, an Accra-based lawyer with Bentsi-Enchill, Letsa & Ankomah, in a news analysis programme on Joy FM, a local FM radio. Also, the emergency liquidity support is only dispensed after borrowers provide collateral, however, the central bank gave out the facility even in cases without security, said Governor Addison, who became governor of the Central Bank in April 2017.

As it turned out, majority of the emergency liquidity support received by the banks was misapplied. Dr. Addison in July this year made it known that uniBank loaned out some of its liquidity support to Belstar Capital Ltd. to acquire shares in Agricultural Development Bank Ltd., during its initial public offering (IPO) in 2016, to become one of the bank's top three shareholders. In all uniBank extended 5.3 billion cedis to shareholders, related and connected parties, 3.7 billion cedis of which was not reported to the central bank and the rest did not follow due process before disbursements, Dr. Addison said. While this reveals poor corporate governance at the company, perhaps a bit of scrutiny by the central bank, how its liquidity support was being applied would have unearthed and averted other porous credit practices at uniBank and officials found culpable punished accordingly.

An investigative report by the Bank of Ghana, said UT Bank lent close to 300 million cedis to Ibrahim Mahama, a businessman and brother of former President Mahama. Apart from the fact that this is a politically exposed person and specific laid down procedure for such clients was to be followed before disbursement, the amount was also too big compared with UT Bank's single obligor limit of about 20 million cedis. It was stated in the report, according to Accra based radio station, Joy FM that there were "poor credit management practices, poor credit governance and supervision" at the bank.

As Dr. Addison put it, "It was clear from banking supervisory reports that some banks and deposit taking institutions lacked good corporate governance structures and more worryingly, was the co-mingling of board and management responsibilities which significantly undermined credit and risk management policies. In fact, there were several owner/management conflicts in a number of banks."

Ghana’s untamed budget deficits, high inflation and depreciating currency in the few years prior to 2015, played major role in building the disastrous pressures in the banking industry that would later explode into the crisis. The country’s budget deficit as a percentage of GDP hit 10 percent for a third straight year in 2014. The development, which put upward pressure on domestic prices also meant less resource availability to the private sector, as well as cheap deposits to banks. The inflation rate advanced to 17 percent at the end of 2015 from 10 percent at the beginning of 2013 with the central bank increasing its policy interest rate to 26 percent from 15 percent over the period.

The economic hardship made it difficult for companies and individuals to pay back debt thus setting the precedence for non-performing loans problems. It was therefore not surprising when the government agreed to an International Monetary Fund bailout program in April 2015 for an almost $1 billion to help address the economic environment. The program was extended by one year by the new administration and ends in April next year.

The troubling situation in the financial sector of Ghana, has led to an emerging loss of confidence in the sector with panic withdrawals by customers of some of the local banks. This also coincides with the crisis in the microfinance and savings and loans sub-sectors with default payments by most of these companies. Worrying as it is, some commentators welcome it because it is a ‘house-cleaning’ exercise long overdue and would help sanitise the financial sector.

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