Editorial

BUILDING A FINANCIAL SECTOR FOR AN EMERGING MARKET ECONOMY

Since the 1980s, Ghana, like many other developing countries, has engaged in far-reaching economic and structural reforms. As a result, Ghana has been undergoing a process of financial sector restructuring as an integral part of a comprehensive economic transformation programme. These reforms are seen as a critical part of the country's strategy to achieving emerging financial market status. In essence, the reforms are designed to enable the financial sector to deliver world first-class services within the globalized financial system.

According to the Bank of Ghana, the financial sector policy seeks to serve multiple objectives other than the fundamental goal of debt and equity intermediation. The reforms are targeted at two important objectives of developing specialized segments of banking and financial services and developing national and local entrepreneurship. The policy aims to use differentiation of levels of capitalisation and equity requirements to advance strategic national interest, including extending banking services to achieve regional balance and equity.

As a result of the reforms, the banking sector is now relatively diversified in the range of services and increasingly innovative new products offered. The next stage and the thrust of financial market policy is developing a vibrant capital market as a vehicle for raising funds to support large amounts of equity finance and investment.

It must be appreciated that the reforms is significantly transforming the Ghanaian financial sector from government controlled to a market-based regime. The Bank of Ghana shifted gradually from a direct system of monetary controls to an indirect system that utilized market-based policy instruments.

As part of the reform process and under the Banking Act, the Bank of Ghana rationalized the minimum reserve requirements for banks, introduced new financial instruments, and open market operations for liquidity management. The Banking Act empowered the Bank of Ghana to complement these policies by improving the soundness of the banking system, the regulatory framework, strengthening banking supervision (risk-based supervision), and improving the efficiency and profitability of banks in line with Basel II and III objectives.

Every Ghanaian now knows that the liberalization of the entry and attraction of foreign banks and investors of sound international standing into the financial services industry has increased competition in the banking industry by giving impetus to dynamic efficiency; introduced strong business practices, technology, and products; ushered in "universal banking"; and introduced market-based and risk management systems.

Recent developments in Ghana's banking environment point to the strong foundations for sustainable growth, such as a macroeconomic policygeared towards stability and a structural policy geared towards growth and sound financial sector.

Ghana is largely a cash-based economy. However, a dynamic growth-oriented financial system that we aspire to must be founded on an efficient payment and settlement system of cheques and electronic cards. In line with this, the Bank of Ghana is undertaking extensive reforms in the legal, institutional, and infrastructural frameworks of the payments and settlements system in Ghana. These are intended to overhaul and modernise the infrastructure of the payments and settlement system in Ghana.

Important infrastructural and policy or system changes include the following:

- The introduction of Real Time Gross Settlement System (RTGS) for high-value payments which has created an enabling environment for safe, sound, secure, and timely payments. It has also reduced systemic, payments and settlement risks as payment orders are settled almost instantaneously.

- A national Switch (E-ZWICH) which replaced the Universal Electronic Payments (UEPS) technology system is also in place that establishes a common platform for all payments transactions in the country to integrate all existing bank switches and allow banks that do not have switches to join the common switch at significantly reduced costs. It would also allow the interoperability of all ATMs and the settlement of payments transactions by customers of different banks at Points of Sale (POS).

- The National Biometric Smartcard (The E-ZWICH card) which addresses the shortcomings of the debit card, is a major vehicle for financial inclusion. Its features of ready accessibility; low transaction costs; limited infrastructure needs; personal safety; security; convenience; and simplicity are indeed welcome.

- The National Switch and Smartcard

- The Codeline Cheque Truncation (CCT) to allow very fast cheque clearing as well as the Automated Clearing House (ACH) for the clearing of electronic debits and credits.

- The Central Securities Depository (CSD) is the infrastructure necessary for capital market development to ensure a secondary and liquid market for government debt instruments and other securities and it should put a hard-wire around the capital market infrastructure to improve security and investor confidence.

- The Ghana Interbank Payments and Settlement System (GHIPSS), is a limited liability company to allow more efficient and coherent management and oversight. The business of GHIPSS includes managing the following: National Switch and Smart Card Services, Cheque Clearing, Codeline Cheque Truncation, Real Time Gross Settlement System (RTGS), Central Securities Depository (CSD), and Automated Clearing House (ACH).

- The Credit Reporting Act (Act 726) to provide a legal and regulatory framework for credit reporting in Ghana, enhance credit risk management by the banking system, and promote the orderly development of a credit reporting system for Ghana and to promote public trust in credit bureau operations.

- The Foreign Exchange Act (Act 723), which replaced the Exchange Control Act, 1961 provides a new statutory framework for foreign exchange payments and transactions. It is a shift away from the controls to monitoring foreign exchange transactions for balance of payments and other purposes.

- Other legislation involve Anti-Money Laundering, the Credit Union, Insurance, Insolvency (Bankruptcy law), the Companies' Code, Borrowers and Lenders, Non-Bank Financial Intermediaries (NBFI), and Offshore Banking.

- Significantly increased Minimum Paid up Capital of Banks and Non- Bank Financial Institutions

Along with the above initiatives, the Bank of Ghana has introduced a number of reforms in the wholesale market for Government Securities, including a primary dealer's code of conduct. These reforms should bring to the domestic financial market increased efficiency and transparency, reduce transaction costs, and ensure broad-based participation of individuals on both competitive and non-competitive basis with greater security of title.

The above policy and legislative reforms have led to rationalization of major aspects of the financial sector thereby creating a new environment resulting in significantly increased efficiency and competition in the banking system, financial deepening, enhancing the transparency and competitiveness of the inter-bank money market, and enhancing the development of the capital market in the country. The integration of the Ghanaian financial system with the global economy will provide sound opportunities for banks and non-bank financial institutions.

These new opportunities unfortunately bring in their wake higher risks which have to be managed by the banks. The reforms of the payment system also require from financial institutions very high standards associated with internationally active banks.

With all these reforms, a cluster of banks emerged with relatively low capital base and depth that are inadequate to support significant levels of lending. These could be more vulnerable to minor swings in macroeconomic fundamentals. However, a large number of banks with a small capital base within the system both dilute the franchise value of banks and increase instability. Entry into the Ghanaian financial market therefore has to be selective, well-managed, and paced over time. There must be clear exit rules and prudential supervision vigorously enforced to safeguard systemic stability.

An expansion of banking activities culminates in increase in exposures with their attendant risks. Financial institutions therefore need to reposition their capital to support these new activities in an expanding economy. New licenses for banks, deposit-taking NBFIs and Finance Houses should henceforth only be issued to banks that meet the new minimum capital requirements. Bank licenses should be issued to internationally active banks. There is however a need to protect the local banks. We see a need for mergers and acquisitions in the industry. The touted competitive environment must be actualized to the individual consumer level.

In all, Ghana has taken giant strides since the 1980s in transforming its financial industry. However, more remains to be done. We commend the Authorities for work well done so far.