
The Changing Face of Banking in Ghana and the Implications for Ghana's Economy

Banks are financial intermediaries that accept deposits from surplus spending units and channel these in the form of loan products to deficit spending units in the economy. The business of banking started in the then Gold Coast during the colonial era with the aim of providing financial services to the British enterprises and the colonial administration. In 1896, the Bank of the British West Africa (which later became Standard Chartered Bank in 1985) opened its first branch in Accra. The success of the bank attracted other foreign banks to begin operations in the then Gold Coast. The Colonial Bank for instance started its operations in 1918 and later merged with Anglo-Egyptian Bank, the National Bank of South Africa and Barclays Bank and became known as Barclays Bank. The Bank of the British West Africa and Barclays Banks were the only banks operating in the Gold Coast during the period, 1920 - 1950. The Ghana Commercial Bank was established in 1953 as the first indigenous bank to reduce the control of the banking sector by the two expatriate banks.

Immediately after independence in 1957, the Bank of Ghana was established to take control over the management of the country's currency. By 1974, many state-owned banks and Development Financial Institutions (DFI) had also been set up to enhance the financial sector by providing services, otherwise ignored by the commercial banks. Examples included the National Investment Bank, Agricultural Development Bank, Bank for Housing and Construction, Merchant Bank, the Social Security Bank. The DFIs raised finance through deposit mobilization, government support and foreign loans and were involved in providing commercial and development banking services.

The reforms experienced in the financial sector and the enactment of the banking law in 1989 (PNDC Law 225) saw the operations of a number of locally incorporated banks, including the Meridian (BIAO), The Trust Bank, CAL Merchant Bank, Allied and Metropolitan Bank and Ecobank. There was too much government control in the financial sector after independence. Banks that were set up between the 1960s and the 1970s were either wholly or majority owned by the public sector. In 1992, however, Government began to privatize some of the state owned banks and the liberalization of the financial sector led to the entry of a number of foreign banks into the banking industry as well as an increase in the number of domestic banks. The liberalization of the financial sector under the Financial Sector Adjustment Programme (FINSAP) and Financial Sector Strategic Plan (FINSSIP) also brought about improved savings, enhanced deposit mobilization,

financial deepening, and competition in the banking industry. However, lending rates were high with wider spread between deposit and lending rates.

The introduction of the new Banking Act in 2004 also led to the elimination of secondary reserves and adjustments in the minimum capital. The minimum capital was initially increased to GHS 60 million in 2007 and then in 2013 it was increased to GHS 100 million. The new Act also saw the introduction of the Universal banking license, which allows banking to provide various forms of banking services. Mergers and acquisitions of some banks also emerged largely on account of the surge in the minimum capital requirement with recent examples including Access Bank and Intercontinental Bank, Ecobank and TTB Bank, and HFC Bank and Republic Bank of Trinidad and Tobago. Currently, there are 27 universal banks operating in the country with 16 foreign-owned and 11 Ghanaian-own, with 6 banks holding more than half of the total assets of the sector.

Clearly, there are significant implications about the changes in the Ghanaian banking sector for the economy over the years. First of all, the influx of foreign banks, especially from Nigeria, has led to intense competition in Ghana's banking industry, with respect to size of deposits and the size of market share of the various banks. There are currently seven Nigerian banks operating in Ghana representing about 26% of the total number of banks in the country. The high presence of Nigerian Banks in Ghana has been occasioned by the ECOWAS protocol and the favourable economic environment in Ghana as well as the relatively high minimum capital requirement for banks operating in Nigeria. It is however important to recognize that the level of competition in the Ghanaian banking sector has a causal effect on the level of efficiency and we have seen some appreciable level of improvement in service delivery and efficiency across the various banks in the country. Again, the competition in the banking industry has also led to technological innovations with the introduction of automated teller machines (ATMs), e-banking, telephone banking, SMS banking etc. These technological innovations have contributed largely to deepening banking services in Ghana.

The influx of new banks into the banking sector has also increased the level of offshore funds, which have been brought in to support credit creation in the sector. One important function of foreign banks is the injection of overseas capital into the economy, thus allowing for the generation of more investment funds to spur production and growth. In essence, foreign loans help loosen the constraints on domestic savings and investments.

The recent competition has also changed banks' approach to dealing with Small and Medium Enterprises (SMEs). Most banks have now set up SME desks in order to concentrate and provide specialized banking services to SMEs. However, these SME outfits are not really doing anything different from what pertains in corporate banking. Lending requirements applicable to large corporates still apply. Therefore, more work needs to be done in terms of improving banks' appreciation of the peculiar challenges confronting SMEs and how to fashion out products targeted

at addressing those needs. Banks should also consider providing advisory services to SMEs through their SME departments. Most SMEs may not really require loans but advice on how to manage their financial resources.

Mergers and acquisitions prompted mainly by the increase in the minimum capital requirement of banks to GHS 100 million have also created larger banks with huge capital base or balance sheet to finance major deals, with implications for increasing GDP growth. Increasing the minimum capital is also useful in the sense that banks are better cushioned against possible losses from credit and liquidity risks. Larger banks are generally more capable of withstanding the shocks confronting industry.

The downside of the changes that have occurred in the banking sector over the years particularly from the early 1990s is the high interest rate spread suggesting high lending rates and low deposit rates. Low deposit rates tend to discourage savings by the public. In the presence of low deposit rates of banks relative to the rates of other instruments, investible funds are likely to find their way to other investment vehicles such as government treasury bills and thus reduce savings mobilisation. On the other hand, high lending rates do not only impede access to credit but also increase the default rate of those who borrow at the high rate. Thus, despite the various reforms and policy initiatives in the Ghanaian banking industry aimed at improving efficiency in the industry in order to curtail interest rates, banks continue to exhibit high interest spreads and the high inflation rates also tend to compound the situation.

It is important for regulators to ensure that the banking sector remains competitive so as to curtail a high interest spread. There is the need to balance the requirements to maintain certain levels of capital adequacy and reserves to promote financial safety against the need to reduce the bank net interest margins. The need to keep inflation within reasonable levels is paramount since the level of inflation tends to feed into bank interest spreads. In this regard, a persistent effort to reduce the current high levels of government budget financing will go a long way to reduce inflation and ultimately bank interest spreads.

References

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