Strong growth of African banking sector

Banking systems across sub-Saharan Africa (SSA) have grown and strengthened significantly over the past decade and favourable macroeconomic, regulatory and financial trends indicate that further improvements lie ahead, Moody's Investors Service says in a new special comment published on Wednesday (19 June).

However, although Moody's expects that most banking systems will sustain the current positive trends, progress will not be uniform as key risks remain, including the region's vulnerability to commodity price fluctuations, infrastructure bottlenecks in the transport and energy sectors and significant risk-management pitfalls.

Moody's says economic growth in SSA remains robust supported by favourable commodities prices, improved public finances, and strong investment and domestic demand.

"These macro developments will have a favourable impact on sub-Saharan Africa banking systems, with the potential for double-digit balance-sheet growth and new business opportunities, especially in corporate banking," says Constantinos Kypreos, a Moody's vice president and author of the report.

"Nonetheless, we note that there are risks as persistent infrastructure bottlenecks, corruption, and socio-political instability will test the resilience of banking systems and their ability to maintain sound financial metrics," Kypreos said.

Shortcomings and challenges

Moody's also says that SSA regulatory and supervisory practices are moving closer to international standards, which will support banks' evolving risk-management and corporate-governance capabilities.

However, Moody's recognises that there are still shortcomings in macro-prudential oversight and challenges being faced in relation to the enforcement of micro-prudential regulations and in some regulators' ability to improve supervision of their respective banking systems.

"Access to financial services across SSA is relatively low; only 24% of adults have an account with a formal financial institution, according to the World Bank. We therefore consider that the potential for further banking penetration remains substantial, particularly for material growth in retail banking," explains Kypreos.

"However, these opportunities will only emerge over several years, as authorities strengthen creditor rights, improve the flow and quality of credit information and financial institutions use alternative payment systems, including mobile phones and money transfers," says Kypreos.

As a reflection of the favourable economic projections and gradual improvements in the regulatory environment and banking penetration, the ratings agency expects that banks will maintain relatively sound financial metrics, although risks will remain.

While Moody's expects non-performing loan levels to be below their historical highs, in part because of expected improvements in regulatory scrutiny and risk-management capabilities, the rating agency notes that asset quality will remain a key risk, partly reflecting unseasoned loan books and the evolving nature of risk management processes.