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High Interest Rates In Ghana,

A Critical Analysis

IEA Ghana

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A Critical Analysis

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Preface

This paper examines the problem of high interest rates in Ghana. The author notes that high interest rates have not only kept the cost of credit unnecessarily high but have also discouraged many otherwise viable projects from being implemented. He blames the problem of high interest rates on the following factors:

1. The structural weaknesses and inefficiencies in the banking system that prevent rapid transmission of lower interest rates to borrowing customers;

2. Perceived risks of lending, including macroeconomic instability, lack of collateral, and absence of credit-related information on borrowers.

Dr. Kwakye stresses the importance of macroeconomic stability underpinned by fiscal discipline. He underscores the need for increased competition, improved efficiency, and lower operational costs in the banking industry, while also addressing risks associated with borrowers. Finally, the author recommends that the monetary authorities should:

1. Impose a cap on banks' lending-deposit rate spread;

2. Consider reducing the primary reserve requirement or pay a token return on them to reduce banks' cost of funds.

We hope you find this publication useful.

Jean Mensa
Executive Director
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Introduction

The high level of Ghana's interest rates has continued to be a source of concern in the country. Even as some measure of macroeconomic stability has been achieved in the past and recently, interest rates have generally remained stubbornly high. The importance of the subject and the need to fill an obvious public information gap motivated this paper. The first to be explained is the existence of different interest rates and point out how they may be related. This will be followed by a discussion of the principal actors in the markets and how they influence interest rates. The next section will enumerate the economic costs of high interest rates, followed finally by suggestions as to how to address the high level of interest rates.

1. Different Interest Rates in Different Financial Segments

While high bank lending rates may have been the focus of attention and anger, we have to recognize that there are several interest rates out there that are determined in several segments of the financial system. Among them are the Policy Rate, interbank rate(s), government securities rates and banks' lending and deposit rates.

At the apex of the interest rate regime is the Policy Rate, Bank Rate, or Prime Rate as it is variously called.[2] This is the rate set by the monetary authorities and charged on (overnight) short-term credit it extends to banks to replenish their liquidity shortfalls. In this regard, the Central Bank exercises its role as lender of last resort. The Policy Rate (PR) plays the role of a benchmark that is used to signal the cost of funds. As such, it is expected to be transmitted throughout the financial system, as banks reflect it in transactions among themselves and with the public. The degree of transmission of the PR, however, depends on the degree of development of and competition in the financial system. In Ghana, the reflection of the PR in particular banks' lending rates has been extremely tardy. The next rate of interest is the interbank rate, which banks use for financial transactions among themselves. As such, these rates may not be quite visible to the general public. There is also a set of rates on government securities that typically range from 91 days to 5 years. Next are banks' lending and deposit

[2] The Ghanaian monetary authorities have decided to call theirs the Policy Rate, that name is used in the paper.

rates. These are probably the most visible rates to the public and which, arguably, are the primary subject matter of the debate regarding high interest rates, at least on the lending side. There is much about the levels and spreads of these rates later on in the paper.

While they differ, the interest rates in the different segments of the financial system tend to be related somewhat, reflecting the cost of funds as signaled by the PR. Their relationship also derives from the principle of arbitrage which argues that funds will flow, within cost margins, from markets where they receive lower returns to others where they receive higher returns. In theory, some equilibrium level of interest rates will be reached in each segment of the loanable funds market, reflecting the point where available supply of funds is equal to demand for them. That said, there are several layers of influence and actors in the markets that affect the flow of funds that go to determine interest rate levels.[3]

2. The Principal Market Actors and Factors That Influence Interest Rates

There are several actors in the markets whose actions and preferences influence the level of interest rates. The key actors are borrowers, lenders, banks and the monetary authorities.

2.1 Borrowers

Let's first take the demand side of the loanable funds market. The users of funds are the government, companies and individuals. The government demands funds to finance the gap between its revenue and expenditure or the budget deficit. The government is often a big player in the markets where it competes with other users of funds. In that sense, the public sector borrowing requirement (PSBR) has a big influence on the price of funds or the interest rate. Companies and individuals also borrow for consumption and investment purposes. Their demand for funds will also influence the price or interest rate.

Government borrowing to finance budget deficits has been one of the major factors that have sustained the high level of interest rates in Ghana. The immediate effect is on the Treasury Bills and Notes/Bonds market. But, as noted, interest rates across market segments tend to be linked somewhat through "arbitrage"—and also because of limited

[3]Recognition is taken of the existence of informal markets like the "susu schemes" and "lone-lender systems," which could enrich the discussion if appropriately analyzed. For now, however, the discussion is kept simple and attention is focused on the formal financial markets.

resources—government borrowing has an effect on all interest rates. When government issues high levels of its securities, it has to pay a high price—in the form of interest—to be able to raise its financing target, because of resource limitations. By competing with other users of funds, government borrowing may put pressure on interest rates in other market segments as well as crowd out private borrowers. That is the reason why high deficits and excessive government borrowing may be bad for the economy.

2.2 Lenders/Investors

In a world of limited resources, lenders—both domestic and foreign—have a great deal of influence on the price of funds or the interest rate. In general, lenders will demand higher interest rates the greater they perceive the risks associated with their lending. These risks are both economic and political. Economic risks include expected currency depreciation and inflation.[4] Both factors erode "savings/investments" and, therefore, have to be compensated for. Other economic risks are high external account deficits, budget deficits, and public debt, which signify that the capacity of a borrowing government to service its debt may be compromised and the risk of default is high. Political risks, on the other hand, include political instability, corruption, and lack of effective institutional mechanisms for protection of invested funds. The market will seek compensation for these risks by demanding higher interest.

When Ghana's interest rates are considered high, it is being related to rates in other countries, especially our peers in Africa and in other parts of the developing world. Theory postulates that domestic interest rates reflect a markup over foreign ones, the markup representing perceived "risks." Thus, in general

$i_d = i_f + \text{risks}$ ---Equation (1)

where, i_d is domestic interest rate,
i_f is foreign interest rate, and
'risks' represent all risks associated with lending to the country.

As noted above, one important risk is currency depreciation, which erodes the value of investments in foreign currency terms, for which the market will demand compensation. Foreign lenders will be more concerned with this type of risk, given that they have to repatriate their funds in the future in foreign currency. The market markup based on currency depreciation is represented by the classical Interest Rate Parity Theorem (IRPT). The IRPT

[4] The market will normally demand compensation for inflation, reflected in positive real rates, which by definition is also the margin between the nominal rate and inflation. The size of real rate, that is the markup of the nominal rate over inflation, will reflect risks perceived by the market and inefficiencies in the financial system.

states that the market will demand an interest rate premium based on expected depreciation of the domestic currency. Thus, domestic interest rates will be equal to foreign interest rates plus a markup based on perceived depreciation of the domestic currency. In an equation form, the IRPT can be stated as:

$$i_d = i_f + \Delta E^e \text{ --Equation (2)}$$

where, i_d, i_f are as stated above, and
ΔE^e is expected change in the domestic currency.

Thus, even based on expected currency depreciation alone, domestic interest rates will be higher than foreign ones. Given that the cedi has been depreciating for most of its history, it should therefore not be surprising that the market has continued to demand a premium on Ghana's interest rates. Even where the exchange rate has been stable de facto, as we are experiencing currently, the market may still demand a premium if it does not believe that the stability is real or will last, and that future depreciation is a certainty. The risk here is a matter of perception rather than of fact.

2.3 Commercial Banks

Most of the ire about high interest rates has been directed at commercial banks—and may be rightly so. As we know, the banks set rates at which they lend funds to borrowers and rates they pay on deposits lodged by customers with them. It is then left to borrowers and savers to decide which banks they want to deal with and in what amounts. In a situation where the financial system is not well-developed and is inefficient and uncompetitive, however, banks' lending rates could be artificially high and deposit rates artificially low, with borrowers and savers reduced essentially to "pricetakers" in the markets. This is to say that the market has to accept rates thrown up by an uncompetitive and inefficient banking system. Not surprisingly, banks' lending rates have remained stubbornly high in Ghana, even as the benchmark PR has been recently reduced. Several indicators are used to buttress this point. As Table 1 and Chart 1 indicate, during June 2009-June 2010, banks' average lending rate declined by 2.12 percentage points. This compares unfavorably with declines of 3.50 and 12.93 percentage points respectively in the Policy Rate and the 91-day Treasury Bill rate. Official information obtained indicates that as at end-June, lending rates in the industry ranged from 23.5 percent to 37.5 percent, with an industry average of 30.63 percent. On the other hand, savings deposit rates ranged from 2.0 percent to 11.5 percent, with an industry average of 7.25 percent. This leaves an unacceptably large spread, a point taken up later.

Apart from nominal rates, banks' real lending rates have been equally high. Referring to Table 2 and Chart 2, banks' average real lending rate nearly doubled from 12.01 percent in June 2009 to 21.11 percent in June 2010. During the same period, the real 91-day Treasury Bill rate declined from 5.08 percent to 3.37 percent (although it rose through November 2009). This trend meant that government benefited from decreasing cost of credit through Treasury Bill issues. Throughout the entire period, the banks' average real savings rate remained, albeit decreasingly, negative. This shows the extent to which savers have borne the brunt of banks' policies. The situation is not conducive for mobilizing savings and developing a savings culture in this country. It is noted here that the real PR also increased steadily throughout the period, transitioning from negative territory earlier to positive territory later. This issue is taken up in Section 2.4 below.

Next, a look at banks' interest rate spreads buttresses the problem of their high lending rates alongside depressed savings rates. During the review period, banks' average lending rate-savings rate spread stayed within a range of 24.83-21.83 percentage points, declining by a mere 0.87 percentage points (See Table 3 and Chart 3). Further, the lending rate-PR spread showed a general rising trend in the range of 14.25-16.83 percentage points. Also, the lending rate-T'Bill rate spread widened sharply from 6.93 percentage points to 17.74 percentage points. Therefore, by every measure, banks' lending rates remained "miles" above comparable rates in the financial system.

The Central Bank, government officials, and concerned private groups and individuals have repeatedly urged banks to reduce their lending rates (see below).[5] These appeals, however, seem to have largely fallen on deaf ears. It would appear that moral suasion alone may not be enough and that the monetary authorities would have to find more effective means of getting their message across. They have a duty to ensure that banks conform to acceptable rules of behavior even in the context of a liberalized financial regime or free market economy.

The high level of lending rates or the cost of credit is consistently cited by businessmen to be one of the important impediments to investment, private sector development, and economic growth in Ghana. As noted above, deposit rates, on the other hand, have been persistently pegged low, leaving large spreads between the two rates. Large spreads are usually symptomatic of underdeveloped, inefficient, and uncompetitive financial systems. Banks try to justify these spreads in terms of their "high cost of funds" and "lending risks." Among the costs they cite are operational costs, costs associated with macroeconomic instability, and costs related to the unremunerated cash reserve requirement imposed by the monetary authorities. The banks may also argue that lending to sectors like shock-prone agriculture and to customers who lack credit reference, increase the danger of loan delinquency, thereby increasing risks for the banks. Whether these factors justify the large spreads, is, however,

[5]Indeed, concern about the high lending rates in the country recently came from an unusual quarter—the World Bank itself. A visiting Executive Vice President of the International Finance Corporation (IFC), an affiliate of the World Bank, Mr. Lars Thunell, reiterated the call to Ghanaian banks to further reduce their lending rates. He noted that the current rates reflected "a fair amount of inefficiency" that banks needed to address "in the interest of private sector growth."

anybody's guess.[6] The high profits consistently posted by banks would not appear to justify the high nominal and real lending rates and large spreads.[7]

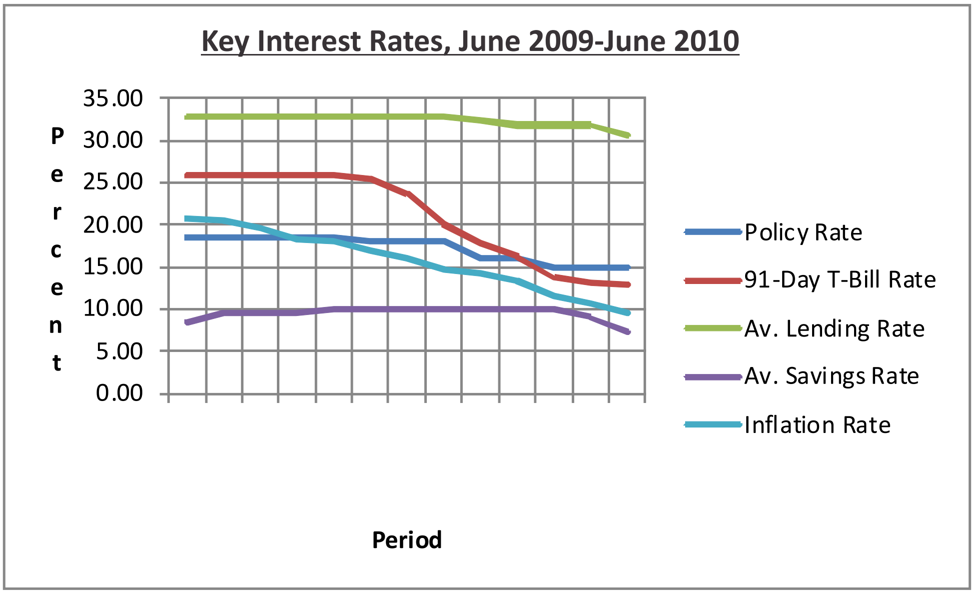
TABLE 1 : KEY INTEREST RATES, JUNE 2009-JUNE 2010

Period	Policy Rate	91-Day T-Bill Rate	Av. Lending Rate	Av. Savings Rate	Inflation Rate
2009:Jun	18.50	25.82	32.75	8.50	20.74
Jul	18.50	25.90	32.75	9.50	20.50
Aug	18.50	25.89	32.75	9.50	19.65
Sep	18.50	25.89	32.75	9.50	18.37
Oct	18.50	25.83	32.75	10.00	18.04
Nov	18.00	25.47	32.75	10.00	16.92
Dec	18.00	23.70	32.75	10.00	15.97
2010: Jan	18.00	20.13	32.75	10.00	14.78
Feb	16.00	17.78	32.38	10.00	14.23
Mar	16.00	16.16	31.83	10.00	13.32
Apr	15.00	13.71	31.83	10.00	11.66
May	15.00	13.14	31.83	9.00	10.68
Jun	15.00	12.89	30.63	7.25	9.52
Jun'09-Jun'10 Change	-3.50	-12.93	-2.12	-1.25	-11.22

[6]In the distant past, the Central Bank carried out an investigation into the banks' alleged high cost of funds as justification for their large spreads that did not support this claim. Information from the Bank, if there has been any recent study in that regard, will be welcomed.

[7]Recent reports of increasing nonperforming loans (NPLs) in the banking system are, however, troubling and do not augur well for lending rates and spreads falling significantly any time soon on the banks' own initiative. The growing level of NPLs reflects, in part, effects of the slowing economy. But prevalence of a large stock of government payments arrears and poor performance of State Owned Enterprises (SOEs), especially the energy and utility companies that are indebted to some banks, are factors that continue to weigh on the banking system and need to be addressed urgently.

CHART 1:KEY INTEREST RATES, JUNE 2009-JUNE 2010



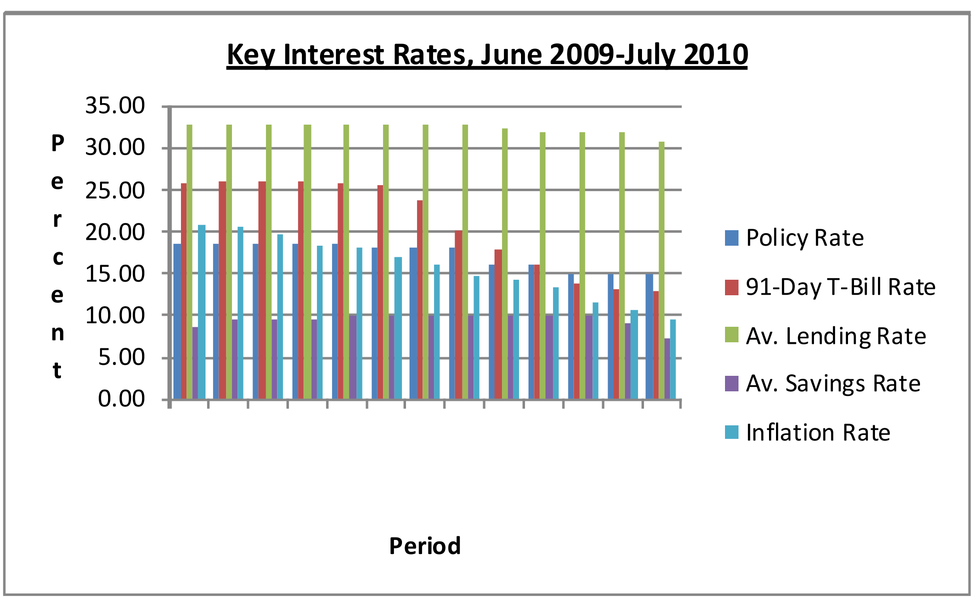
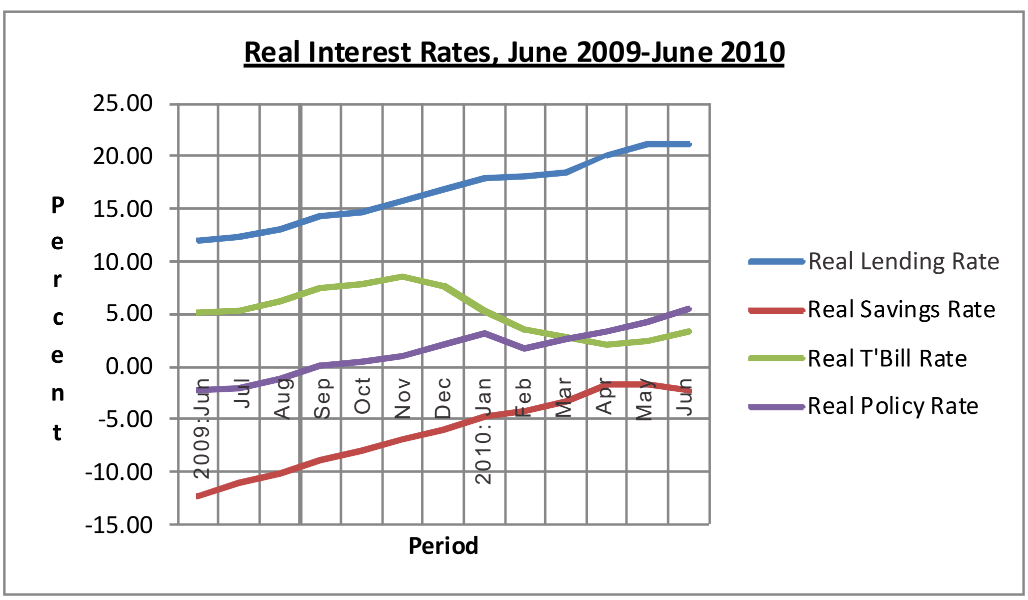


Table 2 & Chart 2 Real Interest Rates, June 2009 - June 2010

Period	Real Lending Rate	Real Savings Rate	Real T-bill Rate	Real Policy Rate
2009:Jun	12.01	-12.24	5.08	-2.24
Jul	12.25	-11.00	5.40	-2.00
Aug	13.10	-10.15	6.24	-1.15
Sep	14.38	-8.87	7.52	0.13
Oct	14.71	-8.04	7.79	0.46
Nov	15.83	-6.92	8.55	1.08
Dec	16.78	-5.97	7.73	2.03
2010: Jan	17.97	-4.78	5.35	3.22
Feb	18.15	-4.23	3.55	1.77
Mar	18.51	-3.32	2.84	2.68
Apr	20.17	-1.66	2.05	3.34
May	21.15	-1.68	2.46	4.32
Jun	21.11	-2.27	3.37	5.48
Jun'09-Jun'10 Change	9.10	9.97	-1.71	7.48



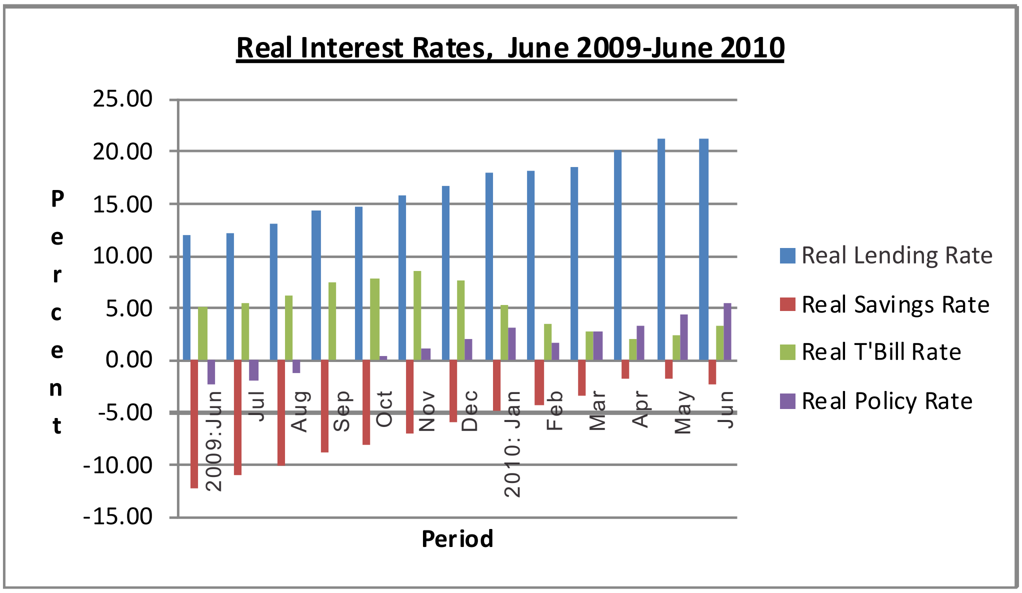
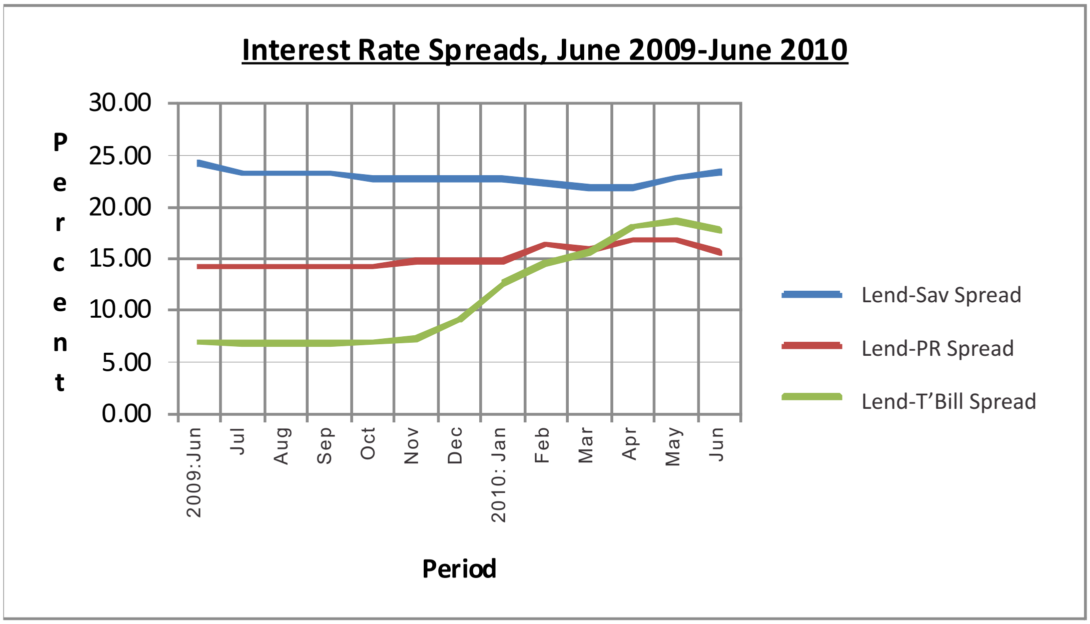
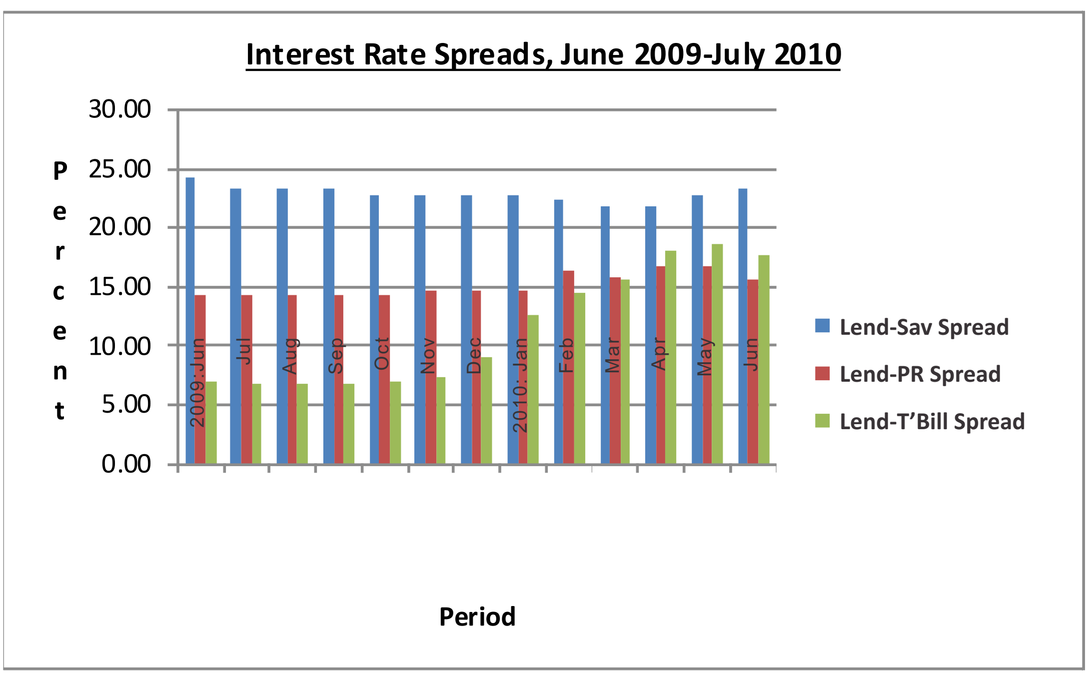


TABLE 3 & CHART 3 INTEREST RATE SPREADS, JUNE 2009-JUNE 2010

Period	Lend-Sav. Spread	Lend-PR Spread	Lend-T'Bill Spread
2009:Jun	24.25	14.25	6.93
Jul	23.25	14.25	6.85
Aug	23.25	14.25	6.86
Sep	23.25	14.25	6.86
Oct	22.75	14.25	6.92
Nov	22.75	14.75	7.28
Dec	22.75	14.75	9.05
2010: Jan	22.75	14.75	12.62
Feb	22.38	16.38	14.60
Mar	21.83	15.83	15.67
Apr	21.83	16.83	18.12
May	22.83	16.83	18.69
Jun	23.38	15.63	17.74
Jun'09-Jun'10 Change	-0.87	1.38	10.81


Interest Rate Spreads, June 2009-June 2010
Percent
30.00
25.00
20.00
15.00
10.00
5.00
0.00
2009:Jun
Jul
Aug
Sep
Oct
Nov
Dec
2010: Jan
Feb
Mar
Apr
May
Jun
Period
Lend-Sav Spread
Lend-PR Spread
Lend-T'Bill Spread


Interest Rate Spreads, June 2009-July 2010
Percent
30.00
25.00
20.00
15.00
10.00
5.00
0.00
2009:Jun
Jul
Aug
Sep
Oct
Nov
Dec
2010: Jan
Feb
Mar
Apr
May
Jun
Period
Lend-Sav Spread
Lend-PR Spread
Lend-T'Bill Spread

2.4 The Monetary Authorities

While commercial banks may have to take considerable flack for high interest rates in the country, the policy actions of the monetary authorities could also contribute to the problem. The monetary authorities use interest rate policy as a tool for managing inflation, sometimes the exchange rate, and economic activity. When inflation is high and if this is considered a greater risk than a slowing economy—the authorities will raise the PR to signal a higher cost of funds that it lends primarily to banks. This message is supposed to be passed on by banks in the form of higher lending and deposit rates, which, in theory should reduce credit demand and attract savings. The result is to reduce money supply and aggregate demand in the economy and thereby help dampen inflation pressure. On the other hand, if the authorities consider the balance of risk to lie more with a slowing economy than with inflation, then they will reduce the PR to stimulate credit demand in order to bolster economic activity. In Ghana, inflation has been a persistent problem, driven, primarily, by demand pressures associated with high government expenditure and deficit financing, cost-push effects emanating from cyclical food supply shocks, and the impact of a depreciating currency on import prices. Faced with persistent inflation, the monetary authorities had to peg the PR high for a considerable length of time. In recent months, however, the PR has been reduced repeatedly in line with falling inflation.

The PR may also be used as a tool to support the domestic currency. Keeping the PR and, in sympathy, other rates high increases the attractiveness of domestic currency-denominated assets. The dampening effect of high interest rates on domestic credit and money supply also reduces demand for foreign exchange. In the end, high domestic interest rates help to attract foreign currency into the economy and to reduce outflows, thereby strengthening the exchange rate. It will be safe to infer that the PR has been used as a tool not only for fighting inflation but also for "protecting" the exchange rate.[8]

It follows, therefore, that if the Ghanaian monetary authorities had long been preoccupied with fighting inflation and also protecting the currency, then it could be inferred that they might have been contributing to the prevalence of high interest rates in the country. The question of whether the PR has been excessively high or not, however, cannot be considered in isolation, because that is a matter of relativity. A relevant measure in this regard is the real rate, i.e. the nominal rate discounted for inflation. As Table1and Chart 1 show, the real PR was negative between June-August 2009, before turning positive thereafter. The negative or low positive real PR would suggest that monetary policy was not sufficiently tight during the period. Also, to the extent that the PR is charged on lending to banks, it implies that the banks

[8]This is not information that is normally put out in the public domain but requires a careful reading of the monetary authorities' intervention actions to discern. For instance, if against the run of economic fundamentals, the currency holds steady or even appreciates, the chances are that the authorities may be intervening heavily in the foreign exchange market, which may show in falling international reserves.

were receiving relatively "cheap" funds from the Central Bank. This is especially the case since it was happening at a time when the banks were charging much higher real rates on their lending to the public (See the attached Tables and Charts). It is also observed that from June 2009 through February 2010, the PR was lower than the (interest equivalent of) 91-day Treasury Bill rate. Could this not have paved the way for the banks to "roundtrip" to the extent that they could purchase T-Bills at higher returns and use them to collateralize their borrowing from the Central Bank at the lower PR? While still on the PR, the MPC communiqués indicate that the monetary authorities have been "easing policy" from October 2009—consistent with falling inflation—by reducing the PR. Ironically however, the fact that the real PR has been increasing seems to suggest, rather, a process of "policy tightening" in the real sense. The inference from all this is that, on the one hand, the monetary authorities did not seem to have had in place a PR that was sufficiently high in the earlier period when it was needed to stem inflation, while, on the other hand, in the latter period, the authorities might have been tightening policy in a real sense rather than easing it, which is currently needed. The two results appear to suggest some kind of instrument-goal inconsistencies. The monetary authorities' comments on these observations would, of course, be welcome.

3. Effects of High Interest Rates

Probably, nobody has a better appreciation of the effects of high interest rates than industrialists who are at the forefront of production in the country. It is not surprising, therefore, that the Association of Ghanaian Industries (AGI) along with the United Traders Association of Ghana (UTAG) and the Ghana Chamber of Commerce (GCC), has been the most vocal in decrying the high level of interest rates.

As these various bodies will tell you, high interest rates reduce the incentive to invest and thereby slow down not only industrial growth but also economic growth. Indeed, Ghana's relatively high interest rates and high cost of credit make the country less competitive in attracting investments, which inhibits its growth. High cost of credit ranks among the top concerns often cited by investors as impeding business in Ghana. If interest rates, and the cost of credit, are brought down significantly, Ghana would be able to attract higher levels of investments which would add several notches to its growth rate.

By increasing the cost of credit and production, high interest rates also result in high prices of goods and services that consumers have to pay. It is known that the monetary authorities tend to raise interest rates to try and dampen demand pressures in fighting inflation. However, the irony of such action is that it may also cause more inflation if production costs increase significantly as a result of the high cost of credit. Such an outcome is more likely in an economy like ours where production constraints are substantial.

High interest rates can, therefore, both inhibit economic growth and cause inflation. Ghana's economy has probably long been caught up in this undesirable scenario. While growth rates of 5-6 percent achieved in the past looked "respectable" to us, to achieve the Millennium Development Goals (MDGs) would require much higher growth rates of 8-10 percent. This is, however, not possible when real interest rates, at least on bank loans, are so high. Similarly, the persistence of the stubbornly high inflation in this country could not be unrelated to the cost-push effect of higher production costs associated with high interest rates. Lowering interest rates should therefore be a top national priority.

4. Remedial Measures

Measures required to reduce interest rates follow directly from the causal factors enumerated above. Primarily, macroeconomic stability is critical to reducing the market's perceived risks for which it seeks compensation in high interest rates. As a principal determinant of macroeconomic stability, fiscal policy has a key role to play in reducing risks. In the same vein, government must curb its spending and borrowing to reduce the pressure on interest rates and crowding out of the private sector. Political risks, including those related to policy uncertainties, corruption, and lack of institutional protection for investments and private property, should also be minimized in order to improve investor confidence and trust.

Reducing interest rates will require addressing some structural weaknesses in the banking industry. Despite the fast growth of the industry, competition remains low, an indication that size alone may not be sufficient in generating competition. Primary among the structural weaknesses is the domination of the industry by the Ghana Commercial Bank (GCB)—along with the National Investment Bank (NIB) and Agricultural Development Bank (ADB)—which does not operate independently and efficiently. It is as if over 30 percent of the banking industry is not contributing to the expected competition and efficiency. This calls for privatization and/or restructuring in a manner that removes official interference in the running of these banks such that they can operate competitively and efficiently. This will be beneficial to the industry as a whole. For example, the decision by

GCB to lend to TOR, or other parastatals, should be motivated by commercial considerations and not by political pressure—overt or covert. Banks like NIB and ADB have a role to play in supporting the strategic sectors of industry and agriculture. But they should be made to operate efficiently in order to limit fiscal risks and risks to the entire financial system.

Coupled with low competition in the banking industry is the problem of banks' own high operational costs, including administrative costs, the costs associated with inadequate financial infrastructure, and the high costs of administering numerous small deposits and borrowers who lack sufficient identity and credit reference. There are also costs to the industry associated with monetary policy. In particular, while the obligation to keep 9 percent of banks' deposits in the form of reserves at the Central Bank serves an important prudential objective, especially in our system where there is no deposit insurance, the fact that the reserves are unremunerated constitutes a cost to the banks, as they have to pay interest to customers—however low that may be.[9] This is not to say, however, that the reserve requirement alone can be used to justify banks' large spreads. In fact, if Ghana did have a deposit insurance scheme, the banks would be asked to make financial contributions to it. That said, a reduction of the primary reserve ratio to seven percent(7%) initially and further to five percent (5%) subsequently is recommended. On the other hand, the Central Bank may decide to pay a minimal return on the reserves to help banks offset part of their costs.

The Central Bank must act decisively to curb the high level of banks' lending rates and spreads, which cannot be justified on the basis of their costs, especially in light of their continued high profitability. The use of moral suasion by the Bank has never worked and a new approach is warranted. An option will be to cap interest rate spreads at 10 percent initially, to be reviewed after a year or two. The banks should be allowed to continue to set the levels of their lending and deposit rates. Since deposits represent banks principal source of funds for lending, imposing a limited markup of lending rates over deposit rates would not appear to be out of order. If this measure even results in both lending and deposit rates remaining high, it will at least achieve the useful purpose of ensuring that due return is paid on savings.

It should be known that capping the spread is in no way intended to return to the old system of controlled interest rates. Such intervention can be justified as necessary in correcting an obvious market failure in the credit system, something that is done even in the most capitalist economies. This case should be made strongly to our multilateral partners—the IMF and World Bank—who are likely to be the first to raise the issue of a return to "controls," which

[9] It is noted with pleasure that the monetary authorities mustered the courage to scrap the secondary (securities) reserve requirement that created a captive market for government paper and which at some point was as high as 35 percent, as it prevented the banks from independently managing a substantial pool of their funds.

they consider an anathema to their "free market" economic philosophy.[10]

It is worth emphasizing that it is the collective responsibility of all relevant parties, in particular government, banks, and the monetary authorities, to bring interest rates down. This will be mutually beneficial. It is in this vein that the recent indication by banks that they will reduce their lending rates following reductions in their base rates, which were considered by many people to be inadequate, is a very welcome development. In fact, there are ample resources in this country to tap for development.[11] But sometimes a case is made for looking to the outside because of the high cost of credit in this country.[12] Bringing interest rates down should make domestic resources affordable for the government, municipalities, utility companies, housing providers, etc. to tap for economic and social projects.

[10]The sweeping financial legislation recently passed by the US congress justifies policy interventions to correct pitfalls in unregulated financial markets, in particular, and market economies in general. The subject of managing economic liberalization in Ghana will be treated in more detail in the near future.

[11]If this were not the case, the Bank of Ghana will not have been chasing "excess liquidity" all these years.

[12]For example, for some years now, Cocoa Board has chosen to borrow funds from outside to purchase cocoa locally, ostensibly citing the high cost of domestic credit as part of that choice. Before the shift, Cocoa Board used to raise the funds from domestic banks by issuing cocoa bills that were guaranteed by Bank of Ghana/Government. The interest rate of 2 percent for "STX" has also been put forth as part of the attractiveness of the facility. We believe, however, that many development projects in the country could be funded from other sources beyond external aid if we explored innovative schemes for mobilizing such resources. These issues are taken up in a forthcoming paper.

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