

Some Problems of Central Banking in Africa

1. Introduction

The paper discusses some problems that confront central banks in Africa in their roles as promoters and regulators of integrated financial systems. Some of these problems that hinder the efficient functioning of these institutions are political in nature; others arise because of the acute dearth of reliable data on which to base decisions. Furthermore, the lack of adequate skilled manpower to devise appropriate policies and oversee the proper implementation of these policies is a severe constraint.

A greater part of the problems that face central banks in Africa, however, originate from the structural characteristics of the respective economies, complemented at times by inappropriate policies. This study is primarily concerned with such problems and it supports the analysis with data on Ghana, Ivory Coast, Kenya and Nigeria.

In section 2 of the paper, we outline the framework within which the main issues are to be discussed. Section 3 deals with the data analysis, mainly evaluating the actual performance of the central banks under review in the light of the constraints within which they operate. A brief summary and some suggestions towards overcoming some of the problems outlined conclude the paper.

2. Framework for the Analysis

The primary function of a central bank in any country should be the most efficient management of the country's financial resources in accordance with the perceived objectives of the nation. In the more developed countries where sustained economic growth is generally assured, the main concern has been to maintain an atmosphere of stable economic growth. Central Banking activities in these countries have therefore been mainly geared towards the provision of short-run monetary stability.

In a representative developing country, the attainment of rapid economic growth and development is generally the overriding concern of the economic managers. Such an objective could hardly be achieved without a sound and well-integrated financial system. The perceived role of a Central Bank in such a country should therefore be seen in the context of promoting and regulating a sound financial system conducive to long-run economic growth and structural transformation. The Central Bank has the dual responsibility for:

1. ensuring that adequate financial resources are provided to meet the desired developmental goals; and

2. overseeing the efficient allocation of these resources among the various resource-competing sectors.

The bank usually fulfills the first role by providing or helping to provide credit to the public and private sectors, in a way that ensures a sustainable economic growth. Various regulatory instruments at the disposal of the bank provide the medium through which the second responsibility is discharged.

In this paper we focus on the main issues that, in our view, directly affect central banks' role in economic development. The paper discusses central banking in Africa within the above framework from four perspectives namely: public and private sector finance, domestic savings promotions, policies to regulate the financial infrastructure and balance of payments management. This discussion is, however, preceded by short background notes on the economies of the four reference countries.

3. Analysis of Data

3.1 Overview of Reference Countries

The Ghanaian economy registered an annual growth rate of minus 0.2% in real output in the period 1971-81.

Despite an accelerated industrial programme initiated in the early sixties, the porportion of industrial production in overall current output rose marginally to about 19% in 1981 from 17.8% in 1971. In 1971 the agricultural sector contributed 45.3% in current output; the sector accounted for about 60% of output in 1981. The service sector suffered a marked decline. Its share in output fell from about 38% in 1981 to 28% in 1981. Over the period the rate of inflation averated 50.2%, increasing from just under 10% in 1971 to an estimated 116% in 1981.

The Ivory Coast recorded an impressive annual growth rate of 6.8% in real output in the period 1971-81. This followed an equally remarkable average growth rate of about 8% between 1960 to 1970. Though predominantly agricultural economy, the rapid expansion of industrial output began in the early 1960's caused a noticable shift in the structure of production by 1981. The proportion of agricultural output in gross domestic product in current prices dropped from an estimated 43% in 1961 to about 27% in 1981. The share of the industrial sector, on the other hand, increased from about 19% in 1961 to over 30% in 1981. The rate of inflation averaged 13.1% between 1971 and 1981.

Kenya also achieved relatively high average annual real growth rate of 5.4% in the reference period. On the

average, real income growth was fairly balanced as the three main sectors - agriculture, industry and services- maintained their relative shares in the period 1973-81. The porportion of agricultural output in GDP (in current prices) decreased from about 51% in 1973 to 32% in 1981. The contribution of industry to total output was about 34% in 1981, compared to about 30% in 1973. The rate of inflation averaged about 12.8% over the period.

Nigeria recorded a remarkably rapid economic growth in the period under review. An average annual real growth rate about 7.1% was achieved. The petroleum industry played a major role in the economy in the period. The proportion of agriculture in GDP (in current prices) declined sharply from 43.4% in 1971 to 23% in 1981. On the other hand, the share of industrial production in GDP increased from 29.2% to 43% over the same period. The service sector also had its relative share in output increased slightly to 34% in 1981, compared to 27.4% in 1971. The average rate of inflation was estimated at about 13% over the period.

3.2. Assessing the role of the Central Banks

(a) Financing the Public and Private Sectors

The provision of financial resources in the public sector is one function that virtually any central bank in

in Africa performs adequately. Indeed, a great deal of the inflationary and balance of payments problems facing many of these countries have their origin in the over-accommodation by central banks of government and other public sector credit needs to meet large fiscal deficits. In the area of providing resources to the private sector, however, not much has been achieved. This stems partly from the fact that, in most of these countries, the private sectors are dominated by small-scale peasant farmers with little or no links to the commercial banks through which the central banks would normally direct funds.

The economies of the four countries operate under varying proportions of public/private sector mix. In Ghana, the average size of government as judged by the share of total government expenditure in GDP actually fell from about 21.6% in 1971 to 11.6% in 1980 (See Table 2). Yet the share of domestic credit to the Central Government rose to 68.8% of the total credit available in 1981 compared to 39.3% in 1971. This represents an average annual share of 58.4% of total credit in the period. Indeed the average figure for the whole public sector is 78.8%. This leaves an average of 21.2% to finance the private sector. The bulk of the credit was provided by the Bank of Ghana

because the porportion of commercial bank credit in total credit averaged about 29% between 1970 and 1973 (Table 3).

The Ivory Coast provides an interesting contrast to the extreme private sector underfinancing experienced in Ghana. For the two years (1979-80) for which data is available, the size of government averaged 33%. Yet, for those years, the public sector accounted for only 2.4% of domestic credit. The bulk of the available credit was used to finance private sector projects¹

Between the two polar cases of public and private sector financing fall the other two reference countries. In Kenya, the size of Government rose from 19.4% in 1971 to about 30% in 1981. The public sector accounted for between 12.4% to 6.2% of the overall domestic credit over the same period. The private sector therefore, had an average of about 75% of the total credit available to finance its activities. The commercial banks provided over 77% of total domestic credit. (Table 3b). In Nigeria the public sector obtained a yearly average of about 37% of total domestic credit in the period 1972 to 1980. Over the same period the size of the public sector averaged 27.5%.

What emerges from the analysis is that while the public sectors, in the majority of cases, have been adequately financed in relation to their sizes in the economy, private sector financing has varied among the four countries. Of the four countries Ghana presents the only clear case where burgeoning government fiscal deficits financed through additional money creation by the central bank seem to have put pressure on the rate of price inflation. According to table 4a, domestic resources, on the average, financed about 89% of the fiscal deficits in the decade ending in 1980. This compares with about 56.7% (1971-81) for Kenya and about 30.1% for the Ivory Coast.²

Secondly, credit from the central bank financed an average of about 51% of the deficits in Ghana. The reliance on new money creation by the central bank to finance the fiscal deficits, as expected, accelerated the growth of domestic credit which put pressure on the rate of inflation³ (See Table 5). Ghana's inflation rate averaged 50.2% (1971-81), compared to 13.1% for the Ivory Coast, 12.8% for Kenya and 13% for Nigeria, over the same period. To ease the pressure on domestic resources in financing government deficits, it is important to raise the proportion financed by foreign sources. To encourage foreign funding of projects, there is the need to have in place, in either the central bank or the Ministry of

Finance, a group of technicians whose primary purpose is to identify and prepare timely feasibility plans for public sector projects.

(b) Promoting Domestic Savings

In the absence of a continuous and substantial foreign capital inflows, it is generally accepted that a rapid and sustainable growth in national income can only be ensured if a significant portion of domestic output is mobilised and invested. The chief responsibility for technical success of a country's savings mobilisation drive rests with the Central Bank. From the information in Table 6, one cannot say with firm conviction that the banks in the four reference countries were successful in promoting domestic savings⁴ in the review period. As a percent of GDP, the sum of savings and time deposits in Ghana declined from 6.1% in 1971 to 3.4% in 1981. The ratio averaged 7.1% in the Ivory Coast over the same period. The situation was a little better in Kenya and in Nigeria where the savings ratios averaged 10.3% and 8.2%, respectively.

The relatively low savings ratios are not due to a lack of policies on the part of the central banks.

We use information on deposit rate movements in Ghana and Nigeria to examine how responsive savings and time deposits have been to changes in deposit rates. In August 1971, interest rates in Ghana were raised mainly with a view to mobilising an increased proportion of domestic savings within the banking system (IMF, 1975 p. 167). At 7.5% the rate on three-month time deposits was half a percentage point below the rediscount rate. Two years later the rediscount rate was reduced by two percentage points. The rate on three-month time deposits moved down by a slightly higher margin to about 5.1%. The discount rate and, by implication, the deposit rates, were subsequently raised in 1975, 1978 and in 1981.

In the two years prior to the rate increase in 1971, savings and time deposits grew at an annual average rate of 14.3%. In 1971 and 1972, they grew respectively at 26.7% and 33.5%. In 1973 when interest rates were reduced the growth rates declined to 12.0%. The next significant growth (54.3%) coincided with the sharp increase in rates in 1978. One could conclude with some justification that the underlying growth rates of savings and time deposits were responsive to the general movements in interest rates, despite the latter being usually below the rate of inflation.

Effective March 1970, the Central Bank of Nigeria linked the maximum and minimum rates that banks charged on loans and paid on deposits to the rediscount rate (IMF, 1975 p. 347). The Bank's minimum and maximum deposit rates were set at 1.5 percentage points below and 1.5 percentage points above the minimum rediscount rate respectively⁵. In the case of Nigeria, the underlying growth rates of savings and time deposits were not generally responsive to changes in interest rates⁶.

While lack of adequate policies could be part of the reasons for the low savings ratios in the reference countries, the principal cause may be attributable to institutional factors. In these countries, as in many other African countries, household savings are largely in the form of physical assets like livestock, inventories of crops and real assets. Moreover, commercial banks and other non-bank financial intermediaries are concentrated in the urban areas. Only a small portion of household savings is, as such, in the form of financial assets. The usual interest rate policies for influencing domestic savings therefore, need to be supplemented with other measures. There is the need to bring deposit taking institutions to the majority of the people. Financial institutions such as credit unions and rural banks⁷ that offer

attractive alternatives to savings in real assets and hoarding of cash should be encouraged.

(c) Regulating the Financial Infrastructure

Amid widespread market imperfections in many African countries, the market mechanism cannot be relied upon to allocate financial resources efficiently. The Central Bank therefore has a major responsibility to ensure that any quantity of financial resources mobilised in the private sector, is allocated to the most productive sectors.

By the end of 1970, the Central Banks of the four countries, were legally empowered to control credit expansion by commercial banks, to oblige banks to hold certain amounts of government paper⁸ and to channel private sector credit to directly productive activities⁹. Table 5 gives the rates of growth of credit in the various economies. A comparison of the average credit growth rates of nominal GDP over the period 1971 to 1981 does not give any indication that the authorities were successful in co-ordinating credit growth to the overall growth of output in the economies¹⁰.

The measures adopted to direct financial resources to the productive or priority sector

were, however, generally successful, according to the available data. In Kenya, where information on commercial bank credit allocation was available for the entire review period, the production sector¹¹ obtained 46.1% of total commercial bank credit in 1981, compared to 35.5% in 1971. General commerce¹² on the other hand, had its share decline from 32.0% in 1971 to 19.4% in 1981. The proportion going into services increased from 32.5% in 1971 to 34.5% in 1981 (See Table 3). In Ghana, the production sector received 49.8% of commercial bank credit in 1973, compared to 40.4% in 1968. The gain was, however, at the expense of services, whose share decreased from 30.9% in 1968 to 18.9% in 1973. On the other hand, general commerce accounted for 31.3% of outstanding commercial bank credit in 1973, compared with 28.7% in 1968.

The Central Bank of Nigeria issued stipulated credit guidelines for commercial banks periodically. For the years 1972 to 1974, the guidelines envisaged 45% of commercial bank credit for the production sector; 32% for general commerce and 23% for services. These guidelines were revised in 1975, 1976 and 1978. Although there were minor discrepancies from the targeted ratios over the years, one can deduce from table 3 that by 1981, the import of the credit guidelines had been achieved.

In General, commercial banks in Ghana financed an average of about 7.1% of current GDP (1968 - 73) and 20.3% in Kenya (1971 - 81). In Nigeria, the ratio rose from 8% in 1972 to 20.1% in 1981. These ratios are relatively low when compared to other developing countries¹³. The reason for the low ratios is attributable, in part, to commercial banks' general preference for financing purely commercial and export industries. The more important reason, however, lies in the fact that a large portion of private sector investment in these countries is in small-scale and rural enterprises. Commercial banks are generally unwilling or unable to lend to such small enterprises because of high risk of default. Such businesses are therefore mainly financed by own savings, borrowing from relatives and private money lenders. The existence of this relatively large out-of-system financing mechanism imposes some constraints on the effectiveness of central banks credit control policies.

Commercial bank lending to small scale enterprises may be encouraged if central banks could provide credit guarantees and legal safeguards that would reduce the cost of default¹⁴.

Also, it is important that central banks support their credit guidelines to the commercial banks with rediscount facilities in order to supplement the latter's resources.

These facilities could then be geared towards priority areas and especially towards small scale enterprises, by offering preferential interest rates.

(d) Balance of Payments Management

Closely linked to the central bank's allocative responsibility is its role as manager of the country's external resources. The bank must ensure that priority in the use of the available foreign exchange is given to those activities where the use of additional foreign resource would give the maximum contribution to the process of economic development.

In the area of foreign exchange management, many central banks in Africa face formidable problems. The economies are dominated by a limited range of exports, mostly agricultural crops. Foreign exchange reserves are therefore available in only limited amounts. Moreover, the wide price fluctuations associated with agricultural export crops render export earnings unstable. On the other hand, the developmental needs of the countries call for a steady stream of imports. In such circumstances the central bank's function of managing foreign exchange reserves acquires a new dimension - that of rationing inadequate and unstable foreign reserves in accordance with perceived national priorities. As often happens, the banks have had to contend with current account deficits on the balance of payments. To finance these deficits many of the

countries have had to resort to heavy foreign borrowing at the cost of high debt service payments which impose severe burdens on their economic development.

The balance of payments accounts of the four countries are reported in Table 7. Of these countries, Kenya and Ivory Coast provide examples of economies that have covered persistent current account deficits with compensating capital inflows. With foreign reserves more often in deficits, these countries have had to borrow extensively to finance current payments imbalances. In the Ivory Coast the ratio of disbursed public and publicly guaranteed debt as a percent of GNP rose from 24% in 1971 to 53.1% in 1981.

Concomitantly, external debt service payments consumed 7.7% of total export earnings in 1971; by 1981, the ratio had jumped to 22.7%. Disbursed debt as a ratio of GNP in Kenya is also estimated at 34.8% in 1981, compared to 19.1% in 1971. Kenya's debt service ratio also moved from 5.4% in 1971 to 16.0% in 1981.

As long as borrowed reserves are invested in productive ventures, as is perhaps the case in the Ivory

Coast and Kenya, the benefits are likely to outweigh the costs in the long-term. However, it is important that foreign borrowings are planned and monitored carefully to avoid using a disproportionate share of available investment resources to service external debt at any point in time.

Developments in the petroleum sector increasingly dominated the evolution of Nigeria's balance of payments in the period 1971 to 1981. Since independence in 1960, Nigeria has consistently run current account deficits (IMF (1975) p. 357). The sharp reversal of this trend in 1974 was, in large part, due to the contribution of the petroleum sector. Even then, there have been wide swings from surpluses into deficits and vice versa between 1974 and 1981. The improved showing on the current account largely obviated the need to resort to foreign borrowing for balance of payments support. External public and publicly guaranteed debt averaged about 4.5% of GNP over the review period. The average annual debt service ratio over the period was 2.5%.

Ghana, on the average, achieved a surplus on her visible trade account over the period considered. This was, however, achieved as a result of strict quantitative controls over imports, resulting in a sharp decline in imports by 1981. For instance, the import level in 1971 was only just about that in 1974. When one takes into consideration the rising price of imports, real imports in

1981 represents a sharp reduction below their value in 1974. The implications for real economic growth is clear. Despite consistent positive trade balance, the country, on the average, incurred a deficit on her current account position. At the same time, Ghana was unable or unwilling to attract adequate surpluses on her capital account to cushion reserve losses. External public and publicly guaranteed debt as a proportion of GNP was four per cent in 1981, compared with 2.3% in 1971. In the same time span, the external debt service ratio averaged just over five percent.

Summary and Conclusions

In this paper, we have been primarily concerned with discussing some of the structural and institutional characteristics which need to be overcome if central banks in Africa are to succeed in their roles as promoters and regulators of integrated financial systems. Information on four countries has been offered to support the analysis. In assessing the four African central banks the objective has not been an evaluation of their success at utilising the traditional monetary policy tools for external stability. Rather, the emphasis has been on what needs to be done to create the right financial environment and conditions conducive to the use of the available policy

tools. In this light, we suggest that while it is important for resources to be channelled into the productive or priority sectors of the economy, it is equally important to ensure an appropriate balance in the financing of the public and private sectors. We see the need for measures to redirect central banks from financing purely commercial and export industries and to encourage them to finance small-scale rural and indigenous projects. To that extent, there is the need for credit insurance and guarantee facilities to minimise the high risk of default associated with loans to such small-scale enterprises. Also, commercial banks' resources have to be supplemented periodically with rediscounting facilities tailored mainly to the financing of such rural enterprises. To encourage the saving habit among as wide a cross section of the population as possible, we see the need for new financial institutions to be set up especially in the rural areas to offer attractive alternatives to savings in real assets and the hoarding of cash.

These suggestions are by no means exhaustive. We offer them in the hope that they may be supplemented with more specific measures to make them operationally viable. For instance, one cannot over-emphasise the importance for on-going research and data collection on all aspects of the

economy to monitor the effectiveness of specific policies and to provide the requisite information to aid policy formulation.

Table 1
Structure of Production

	Average Annual Growth Rate of Real Output (Percent) (1971 - 81) ^a	Distribution of Gross Domestic Product (Percent)					
		Agriculture		Industry		Services	
		1971 ^b	1981 ^c	1971 ^b	1981 ^c	1971 ^b	1981 ^c
Ghana	-0.2	45.3	60.0	17.8	19.0	37.9	28.0
Ivory Coast	6.8		27.0		30.0		50.0
Kenya	5.4	31.3 ¹	32.0	30.0 ¹	33.0	46.2 ¹	47.0
Nigeria	7.1	43.4	23.0	29.2	43.0	27.4	40.0

Note 1: Figures are for 1973

Sources: a. IMF, International Financial Statistics
b. (1971) IMF, Surveys of African Economies, Volume 2 (1973)
and Volume 6 (1975)
c. (1981) World Bank, World Development Report (1982) Table 2

Table 2

The Proportion of Government Expenditure in Current GDP and
Distribution of Domestic Credit (Percent of Total)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
2(a) Ghana											
Gov't Expenditure/GDP (%)	21.6	21.9	17.0	20.3	26.6	27.9	20.0	15.7	15.6	11.6	
Domestic Credit	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Government	39.3	43.3	44.6	46.6	57.9	64.8	72.2	70.1	66.2	68.7	68.8
Public Entities	16.4	20.2	27.4	27.0	18.5	16.2	11.0	17.2	22.1	20.7	21.9
Private Sector	44.3	36.5	28.0	26.4	23.6	19.0	16.8	12.7	11.7	10.6	9.3
2(b) Ivory Coast											
Gov't Expenditure/GDP (%)									32.7	33.5	
Domestic Credit	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Government	-15.7	-7.3	-15.8	-17.7	-8.8	-5.3	-13.9	-17.8	-16.8	-6.5	6.2
Public Entities	0.0	0.0	0.0	0.0	0.0	0.8	0.8	0.9	2.6	2.7	2.1
Private Sector	115.7	107.3	115.8	117.7	108.8	104.5	113.1	116.9	114.2	103.8	91.7
2(c) Kenya											
Gov't Expenditure/GDP (%)	19.4	23.1	19.8	19.4	23.9	22.7	18.5	24.4	28.5	26.3	30.0
Domestic Credit	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Government	5.3	11.5	12.4	18.7	27.5	25.4	19.4	25.6	25.4	24.4	34.5
Public Entities	7.1	7.0	6.2	4.5	4.7	2.9	2.8	1.7	1.7	2.2	1.7
Private Sector	87.6	81.5	81.4	76.8	67.8	71.7	77.8	72.7	72.9	73.4	63.8
2(d) Nigeria											
Gov't Expenditure/GDP (%)		14.8	18.2	18.0	30.3	28.8	31.4	30.3	35.0	40.5	
Domestic Credit	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Government	48.4	42.1	40.4	0.0	-55.5	18.5	40.0	45.1	38.6	34.0	43.1
Public Entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Sector	51.6	57.9	59.6	100.0	155.5	81.5	60.0	54.9	61.4	66.0	56.9

Sources: IMF, International Financial Statistics
IMF, Government Finance Statistics

Table 3

Sectoral Distribution of Commercial Bank Credit
Percent of Total

	1968	1969	1970	1971	1972	1973					
3(a) Ghana¹											
Sector											
Production	40.4	49.6	46.5	49.9	51.3	49.8					
General Commerce	28.7	20.8	28.9	29.6	28.4	31.3					
Services & Misc.	30.9	29.6	24.6	20.5	20.3	18.9					
Comm. Bank Credit/Total Credit (%)	14.7	19.8	23.7	30.9	31.6	30.6					
Comm. Bank Credit/GDP (%)	4.7	5.7	6.3	9.1	9.3	7.4					
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
3(b) Kenya²											
Sector											
Production	35.5	35.8	33.3	37.7	38.3	38.3	36.8	40.6	43.7	43.7	46.1
General Commerce	32.0	27.9	25.2	28.3	23.2	21.4	21.1	21.2	18.9	19.5	19.4
Services & Misc.	32.5	36.3	41.5	34.0	38.5	40.3	42.1	38.2	37.4	36.8	34.5
Comm. Bank Credit/Total Credit (%)	95.1	80.4	83.7	83.8	73.0	71.1	78.1	73.8	74.1	75.3	64.0
Comm. Bank Credit/GDP (%)	18.7	16.8	19.3	20.5	19.6	18.2	19.4	22.5	23.4	23.2	21.7
3(c) Nigeria³											
Sector											
Production (Prescribed)		45.0	45.0	45.0	48.0	48.0		50.0			
(Actual)		32.0	32.0	32.0	32.0	30.0		28.0			
General Commerce (Prescribed)		38.1	38.2	43.6	44.2	52.1					59.1
(Actual)		23.0	23.0	23.0	20.0	22.0		22.0			
Services & Misc. (Prescribed)		35.7	34.4	30.0	30.4	25.1					18.1
(Actual)		26.2	27.4	26.4	25.4	22.8					22.8
Comm. Bank Credit/Total Credit (%)		47.4	50.9								54.5
Comm. Bank Credit/GDP (%)		8.0	8.1	8.1	8.0	8.1					20.1

Sources: 1. IMF, Surveys of African Economies, Vol. 6, Page 157, Table 23
2. Central Bank of Kenya, Economic and Financial Review, Jan. - March 1982; Table 1.6.2
3. 1972-78 Central Bank of Nigeria, "Twenty Years of Central Banking in Nigeria," 1979, Table 5-5
1981 Central Bank of Nigeria, Monthly Report, January 1983, Table 3

		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
4(a) Ghana												
Total Revenue Plus Grants	Cedis	450.7	419.9	445.0	653.0	879.8	884.4	1,171.2	1,383.1	2,600.0	2,949.9	
Total Expenditure Plus Net Lending	(Million)	539.1	616.1	595.1	947.4	1,403.2	1,821.3	2,228.0	3,389.8	4,400.0	4,758.0	
Total Surplus/Deficit		-88.4	-196.2	-150.1	-294.4	-523.3	-939.9	-1,056.8	-1,896.7	1,800.0	1,808.1	
Financing												
Domestic Sources		72.0	111.4	84.3	341.0	587.5	843.6	1,044.1	1,720.2	1,800.0	1,518.1	
External Sources		24.2	36.0	35.0	-3.7	12.0	-10.6	12.7	67.2		280.0	
Use of Cash Balances		-7.8	48.4	30.1	-49.8	-76.8	9.3					
Deficit/GDP	(%)	3.5	7.1	4.3	6.4	10.0	14.2	9.5	9.0	6.0	3.7	
Domestic Finance/Deficit	(%)	81.4	56.8	56.2	118.2	112.3	94.3	98.8	91.7	100.0	88.0	
Central Bank Finance/Deficit	(%)		21.6		39.1	51.4	45.6	61.6	22.1	73.2	64.2	
4(b) Kenya												
Total Revenue Plus Grants	Shillings	2,153	2,554	2,616	3,386	4,438	5,037	5,863	9,166	10,543	12,717	14,351
Total Expenditure Plus Net Lending	(Million)	2,488	3,336	3,312	3,944	5,700	6,595	6,888	10,037	12,094	13,699	18,248
Total Surplus/Deficit		-335	-782	-696	-558	-1,259	-1,558	-1,020	-871	-2,411	-1,122	-3,897
Financing												
Domestic Sources		281	325	471	174	422	1,566	944	-223	1,920	132	969
External Sources		183	189	306	250	380	767	519	605	217	128	1,216
Use of Cash Balances		-129	268	-8	134	457	-775	-443	489	274	882	1,712
Deficit/GDP	(%)	2.6	5.4	4.2	2.7	5.3	5.4	2.7	2.1	5.3	2.1	6.4
Domestic Finance/Deficit	(%)	83.9	41.6	67.7	31.2	33.5	100.5	92.5	-25.6	79.6	11.8	24.9
4(c) Nigeria												
Total Revenue Plus Grants	Naira		1,054	1,830	4,308	4,740	5,449	6,265	6,362	13,806	15,815	
Total Expenditure Plus Net Lending	(Million)		1,136	1,641	3,061	6,176	7,319	8,899	8,707	14,211	17,548	
Total Surplus/Deficit			-82	189	1,247	-1,436	1,870	-2,134	-2,345	-405	-1,733	
Financing												
Domestic Sources			78	-210	-1,257	1,446	1,865	1,816	1,981			
External Sources			4	21	10	-10	5	298	364			
Deficit/GDP	(%)		1.1	-2.1	-7.4	7.0	7.3	7.6	8.2	1.0	4.0	
Domestic Finance/Deficit	(%)		95.2	-111.1	-100.8	99.8	86.2	84.5				

Sources: IMF, International Financial Statistics
IMF, Government Finance Statistics

Table 5
Annual Growth Rates of Major Variables
(Percent)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
5(a) Ghana											
Fiscal Deficit	77.2	121.9	-23.4	96.1	77.8	76.6	14.4	79.5	-5.1	0.5	
Domestic Deficit	22.7	12.5	1.8	48.7	27.4	52.0	58.4	67.7	14.8	28.2	63.1
Money Supply	5.0	44.1	21.9	23.7	44.6	41.7	67.5	72.4	13.4	30.0	54.7
Consumer Price Index	9.6	10.1	17.7	18.1	29.9	56.1	116.4	73.1	54.5	50.0	116.5
Current GDP	10.1	12.6	24.4	33.1	13.4	23.5	71.1	88.0	34.2	45.5	87.0
5(b) Ivory Coast											
Domestic Credit	24.3	28.8	22.2	36.8	29.8	38.5	42.9	11.2	14.7	23.2	23.8
Money Supply	10.2	12.0	14.3	38.0	10.5	44.6	47.3	8.5	4.4	1.1	6.3
Consumer Price Index	-1.6	0.3	11.2	17.2	11.5	12.1	27.4	13.0	16.6	14.6	8.9
Current GDP	6.0	7.3	20.0	30.5	12.9	33.5	38.2	15.8	9.1	15.4	29.5
5(c) Kenya											
Fiscal Deficit	-10.9	133.4	-11.0	-19.8	125.6	23.7	-34.5	-14.6	176.8	-53.5	247.3
Domestic Credit	35.1	19.4	27.9	28.7	29.2	16.5	23.8	35.8	14.2	13.1	26.9
Money Supply	7.4	17.0	27.5	4.0	13.0	25.0	48.5	10.4	14.4	-6.9	12.2
Consumer Price Index	3.7	6.0	9.2	18.0	19.0	11.4	14.9	16.9	8.0	13.8	11.8
Current GDP	11.7	12.5	16.0	21.4	17.2	21.9	27.9	10.7	10.4	15.9	15.4
5(d) Nigeria											
Fiscal Deficit						115.1	30.2	14.1	9.9	-82.7	247.3
Domestic Credit	-1.8	13.7	9.8	-40.0		157.3	94.1	30.2	45.2	1.9	52.1
Money Supply	4.2	11.5	23.9	51.1	85.5	44.6	38.1	1.7	16.5	48.3	8.0
Consumer Price Index	6.6	2.6	5.7	25.3	20.0	24.3	19.3	18.7	11.1	11.4	20.8
Current GDP	26.3	8.5	16.9	88.4	20.3	24.7	10.1	2.6	39.0	8.4	0.4

Sources: IMF, International Financial Statistics
IMF, Government Finance Statistics

Table 7
Balance of Payments
(US\$ Million)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
7(a) Ghana											
Visible Trade Balance	-33.6	161.4	212.9	-29.2	150.4	88.8	29.4	112.5	396.9	84.3	17.7
Current Account Balance	-145.8	108.3	126.7	-171.4	17.6	-74.2	-77.8	-45.9	256.3	-98.4	-208.8
Capital Account Balance	137.9	-45.8	-45.5	122.7	-26.4	41.5	176.8	250.9	-38.5	27.8	243.9
Errors and Omissions	14.0	0.5	-8.4	-29.9	6.4	-26.8	12.4	-119.3	-248.4	11.1	-88.8
Balance for Official Financing	6.1	62.5	72.8	-78.6	-2.4	-59.6	109.4	85.7	-30.6	-76.7	-53.7
Reserve Movements											
(+Decrease/-Increase)	-14.8	-74.8	-82.8	92.4	-10.4	44.4	-62.3	-129.8	16.5	53.4	2.6
7(b) Ivory Coast											
Visible Trade Balance	95.6	135.5	160.7	358.6	226.7	574.0	814.8	571.1	489.1	505.0	674.2
Current Account Balance	-105.5	-96.8	-219.3	-61.1	-383.8	-248.7	-178.3	-841.2	-1383.1	-1622.5	1240.3
Capital Account Balance	88.6	21.6	217.0	142.3	277.6	261.8	320.8	1023.1	1834.4	821.6	
Errors and Omissions	-3.5	3.4	-3.9	-19.7	14.0	16.8	-23.7	-15.9	-78.8	-323.5	39.7
Balance for Official Financing	-20.4	-71.8	-6.2	61.5	-92.2	29.9	118.8	166.0	-329.7	-11.6	-379.0
Reserve Movements											
(+Decrease/-Increase)	24.3	65.6	-10.1	59.5	-82.6	-11.7	-139.2	-226.9	321.4	132.6	373.9
7(c) Kenya											
Visible Trade Balance	-184.9	-116.8	-74.9	-316.9	-213.7	-63.8	18.1	-675.9	-562.8	-1048.0	-860.3
Current Account Balance	-111.7	-68.1	-126.1	-307.9	-218.4	-125.0	25.9	-662.3	-500.2	-898.9	-737.8
Capital Account Balance	52.0	99.9	140.8	224.9	197.3	210.0	247.8	455.4	685.3	694.6	543.7
Errors and Omissions	-10.7	-8.0	6.9	-5.1	-16.6	0.7	3.0	6.8	5.3	-10.8	-44.5
Balance for Official Financing	-70.4	23.8	21.6	-88.1	-47.8	85.7	276.7	-200.1	190.4	-210.1	-238.6
Reserve Movements											
(+Decrease/-Increase)	48.8	-31.0	-31.0	79.0	60.9	-83.6	-290.7	170.2	-203.0	187.6	270.3
7(d) Nigeria											
Visible Trade Balance	495	819	1,893	7,218	2,845	2,644	2,709	-1,177	7,502	9,494	-354
Current Account Balance	-407	-342	-9	4,898	42	-357	-1,018	-3,786	4,379	4,977	-5,326
Capital Account Balance	483	275	258	-70	187	-67	240	1,766	1,333	1,409	803
Errors and Omissions	83	7	-48	71	-42	45	-50	-100	-2,513	-2,043	-134
Balance for Official Financing	159	-60	201	4,899	187	-379	-828	-2,120	3,199	4,343	-4,657
Reserve Movements											
(+Decrease/-Increase)	-206	45	-206	-5,050	16	405	948	2,343	-3,663	-4,687	6,340

Source: IMF, International Financial Statistics

Table 6
Interest Rates and Domestic Savings
In Percent at End Period

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
6(a) Ghana¹											
Savings Deposit Rate	7.5	7.5	5.1	7.8	7.6	7.6	7.6	12.1	12.1	12.1	18.3
3 Months Time Deposit Rate	7.5	7.5	5.0	5.0	7.5	7.5	7.5	12.0	12.0	12.0	18.0
Growth Rate of Savings and Time Deposits	26.7	33.54	12.0	33.9	22.7	25.6	37.4	54.3	25.6	47.6	40.4
Savings and Time Deposits/GDP	6.1	7.3	6.6	6.6	7.1	7.3	5.8	9.4	4.5	4.5	3.4
6(b) Ivory Coast²											
Growth Rate of Savings and Time Deposits	10.0	-21.7	49.9	98.2	7.1	38.0	56.9	17.2	-21.3	8.1	25.1
Savings and Time Deposits/GDP	6.1	4.4	5.5	8.3	7.9	8.2	9.3	9.4	6.8	6.4	6.1
6(c) Kenya³											
Growth Rate of Savings and Time Deposits	7.9	7.1	18.1	20.7	26.1	22.3	43.4	20.9	19.5	9.6	15.1
Savings and Time Deposit/GDP	9.1	8.8	8.9	8.9	9.5	9.6	10.7	11.7	12.7	11.9	11.9
6(d) Nigeria⁴											
(Min-Max) Deposit Rate	3.0-6.0	3.0-6.0	3.0-6.0	3.0-6.0	4.0-5.0	4.0-5.0	3.0-5.0	4.0-5.5	4.0-5.5	4.5-7.5	4.5-7.5
Growth Rate of Savings and Time Deposits	10.4	22.8	27.4	67.2	61.6	25.9	13.9	15.4	42.3	39.5	12.3
Savings and Time Deposit/GDP	5.2	5.9	6.5	5.7	7.7	7.8	8.0	9.1	9.3	11.9	13.3

Sources: 1. IMF, International Financial Statistics, and the World Bank, Ghana: Policies and Program for adjustment Volume 2, October 1983, Table 6.13, Page 231
2 & 3. IMF, International Financial Statistics
4. IMF, International Financial Statistics and Central Bank of Nigeria, Twenty years of Central Banking in Nigeria, 1979, Page 123

		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
8(a) Ghana												
Disbursed Debt	US\$ Million	531.5	598.0	704.2	700.3	676.0	665.5	783.1	853.0	978.0	1104.8	1104.5
Debt Service Payments	US\$ Million	27.7	14.3	23.2	27.0	47.7	53.1	36.2	65.2	70.1	99.0	55.1
Disbursed Debt/GNP	Percent	22.3	23.8	23.5	17.4	14.8	12.0	8.1	7.2	9.6	7.4	4.0
Debt Service Payments/Exports	Percent	7.4	3.0	3.5	3.9	5.3	5.8	3.6	6.5	5.9	7.3	6.4
8(b) Ivory Coast												
Disbursed Debt	US\$ Million	351.7	399.2	579.8	690.6	924.6	1163.8	1902.6	2810.9	3668.6	4290.9	4390.4
Debt Service Payments	US\$ Million	44.5	57.9	72.1	114.9	131.3	174.5	277.2	389.9	589.1	811.2	752.9
Disbursed Debt/GNP	Percent	24.0	23.2	25.1	24.5	24.3	25.9	31.4	37.1	40.8	42.8	53.1
Debt Service Payments/Exports	Percent	7.7	8.3	7.2	7.9	8.7	8.8	10.0	12.8	18.2	21.7	22.7
8(c) Kenya												
Disbursed Debt	US\$ Million	330.0	356.2	455.8	508.6	565.0	689.2	1059.1	1336.7	1737.7	2164.7	2251.5
Debt Service Payments	US\$ Million	28.7	24.8	29.8	34.0	37.8	48.2	66.2	134.5	163.6	227.9	266.3
Disbursed Debt/GNP	Percent	19.1	18.7	18.7	18.6	18.2	20.9	24.6	26.2	29.6	31.4	34.8
Debt Service Payments/Exports	Percent	5.4	4.3	4.2	3.5	3.7	4.3	4.2	8.7	10.0	11.5	16.0
8(d) Nigeria												
Disbursed Debt	US\$ Million	574.6	680.5	1157.4	1219.7	1086.4	838.4	892.8	2347.7	3220.5	4037.2	4946.1
Debt Service Payments	US\$ Million	60.3	64.5	150.5	169.2	246.6	374.8	106.3	104.1	237.6	542.2	877.4
Disbursed Debt/GNP	Percent	6.1	4.8	7.0	4.1	3.1	1.9	1.8	4.4	4.9	4.8	6.4
Debt Service Payments/Exports	Percent	3.0	2.8	4.0	1.7	2.7	3.4	0.8	0.9	1.2	2.0	4.7

Sources: World Bank, World Debt Tables
World Bank, World Development Report (1983)

Notes

1. This apparent peculiar situation arises from the fact that between 1971 and 1981 the Ivory Coast budget deficits were mainly financed by funds from external sources.
2. Nigeria, on the average, financed about 93.3% (1972-78) of government fiscal deficits from domestic sources. However, oil tax revenue was the main source of financing and so there was not much pressure on the central bank for finance.
3. Information on the proportion of government fiscal deficits financed by central bank accommodation was not available for Ivory Coast, Kenya and Nigeria.
4. Our discussion concerns voluntary savings as opposed to forced savings in an economy.
5. The minimum and maximum deposit rates shown in table 6(d) were calculated on this basis.
6. The fact that interest rates in real terms were negative could be a factor for the relative lack of response. That interest rate adjustments were generally of the order of single percentage points could also be an important reason.
7. The Bank of Ghana has helped to establish rural banks in some parts of the country since the mid-seventies. We are, however, unable to evaluate the operations of these banks for lack of data.
8. The case is slightly different with the Ivory Coast which operates under supranational central bank, the Banque Centrale des Etats de L'Afrique de l'Ouest (BCEAO). Commercial banks in the Ivory Coast hold deposits with the BCEAO but do not face specific reserve requirements. The BCEAO's authority to refinance up to 35% of a commercial banks' total credit and its discretion over the interest rates charged have been the main instruments used to ensure that national credit targets are achieved. Preferential interest rates are available for lending to agriculture, small scale construction and small to medium-sized locally owned business. Of late these measures have been augmented by direct ceilings on commercial bank lending (See Collins [1983] p. 14).
9. See IMF, Surveys of African Economies, Volume 2 [1973] and Volume 6 [1975]).

10. While Ghana seems to be the only exception, the problem there lies not so much in the overall credit growth but with the disproportionate share that went to the public sector.
11. We define the production sector to include agriculture, manufacturing, mining, quarrying and building and construction.
12. General commerce includes imports, exports and domestic trade.
13. For instance the ratio of commercial bank credit in current GDP has averaged over 35% in Barbados for the period 1971 - 81.
14. Indeed the Bank of Ghana in 1973 operated a guarantee scheme for small borrowers (IMF [1975] p. 167) Under the scheme the Bank insured the commercial banks' risks up to two thirds and sometimes up to 100 percent of total credit extended to small Ghanaian enterprises. We are, however, unable to evaluate the effectiveness of the scheme because of lack of data.

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