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Lending rates and access to credit in Ghana

Abstract

A comparative analysis of lending rates and access to credit in Botswana, South Africa and Nigeria showed that Ghana's lending rate was the highest among its peers while access to credit was also the lowest. The Association of Ghana Industry also identified high cost of credit and unavailability of credit as the main constraining factors inhibiting the growth of industry. Ghana and its peer countries pursued interest rate deregulation reforms to address these problems at various stages of their financial sector development. The purpose of this study has been two-fold. First the study investigates whether interest rate deregulation improves efficiency and access to credit to all sectors of the economy. Secondly, the study also finds out whether commercial banks finance of government deficit is part of the problem of level of lending rates and access to credit. This study not only updated existing literature on efficiency in credit allocation and access to credit but also extended it to fill the existing gap in the literature by using panel regression to empirically assess the cost and access to credit for the various economic sectors. The study also widened the analysis by looking at the impact of interest rate deregulation on specific sectors of the economy which has not been found in the existing studies and also used a more extensive data which covered almost the same period of interest rate controls (1963 – 1986) and interest rate deregulation (1987 -2010). The study used Seemingly Unrelated Regression (SUR) methodology on panel of credits to the various sectors of the economy, lending rates and commercial banks finance of government deficits. The theoretical model was based on multivariate regression specifications with each individual dependent variable forming linear functions of the same group of explanatory variables. The constant of the regressions, which was the alpha (α) of the estimates, were negative for all the economic sectors during the interest rate regulated regime but positive after interest rate deregulation. The study found that without a change in policy these sectors' growth would have remained stagnant. The efficiency in credit allocation also improved for all the sectors of the economy during the interest rate deregulation periods. Banks finance of government deficits and loans allocations to all the sectors of the economy had positive relationships during the pre interest rate liberalisation periods compared with the negative relationship in the interest rate deregulation periods. The results showed that banks finance of government deficit in the pre interest rate liberalisation period resulted in increase in allocation of credits to all sectors while credit allocations declined during the interest rate liberalisation periods on account of banks finance of government deficits