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Research in Progress 6

**FINANCIAL REPRESSION, INTEREST RATES, AND
CREDIT ALLOCATION IN SUB-SAHARAN AFRICA**

Michael Graham

October 1996

UNU World Institute for
Development Economics Research
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The author, a participant in the 1996 UNU/WIDER Internship Programme, prepared this study within the UNU/WIDER Project on Impact of Liberalization on Key Markets in Sub-Saharan Africa, co-directed by Professor Giovanni Andrea Cornia, Director, and Professor Nguyuru H. I. Lipumba, Senior Research Fellow. UNU/WIDER gratefully acknowledges the financial contribution to the 1996 Internship Programme by the Special Finnish Project Fund of the Ministry for Foreign Affairs of Finland and the John D. and Catherine T. MacArthur Foundation.

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1. Introduction

Economic development has been slow in most countries of Sub-Saharan Africa (SSA) during the past two decades. Per capita income in 19 countries grew by less than 1% per annum between 1960 and 1979. During the last decade, 15 countries recorded a negative rate of growth of income per capita. Income per capita was a mere \$411 in 1979 (excluding Nigeria). This dismal economic performance is partly due to structural weakness, but also reflect domestic policy inadequacies. Of these domestic policy inadequacies, policies pursued in the financial sector including exchange rate policy have proved to be critical.¹

The severity of the economic crisis at the end of the 1970s compelled SSA countries to accept structural programmes designed to restructure their economies. Financial liberalization is part of the structural adjustment programme and it started in the region during the mid-1980s. The financial sector in SSA has been said to be *repressed* and this *financial repression* is impeding economic progress in the region. Reforming the financial sector, it is assumed, will boost the growth prospects of these economies. It has been argued by many mainstream development economists that financial liberalization ensures higher levels of domestic savings/investments and a more efficient allocation of capital. Thus, efficiency is associated with a more liberalized and deregulated financial system. Reforms in the financial sector, therefore, represent a major undertaking to promote an efficient allocation of financial resources and stimulate private savings.

Attempts at financial liberalization have produced a mixture of success and crisis in the developing world. Experiences of developing countries have shown that outcome of financial liberalization depends, to a great extent, on timing and sequencing of the liberalization measures in relation to the overall macroeconomic conditions. Further, the

¹ The importance of the financial sector in economic development has been highlighted in recent literature. See King and Levine (1992), 'Financial indicators and economic growth in a cross section of countries', PRE Working Paper, No. 819, The World Bank.

institutional structure of the financial sector and the adequacy of financial sector supervision are also important determinants. In all, close attention has to be paid to the structure of the banking sector in designing policies for individual countries.

This paper looks at trends and the experiences of nine (9) SSA countries. What has happened in these countries between the period 1980 and 1994 is considered in the context of the following basic questions:

- (i) Are financial markets currently deeper in SSA countries?
- (ii) How have interest rates fared? Does movements in interest rates affect savings?
- (iii) What do the current pattern of claims on domestic credit portray?

The structure of this paper is as follows:

Section 2 presents an overview of the financial repression hypothesis and sheds light on some reasons why countries resort to financial repression. Objections to the financial repression hypothesis is also noted in this section. The third section looks at the general picture concerning the financial structure in the countries surveyed before adjustment in this paper and the fourth section portrays the financial development (if any) that have occurred over time. The behaviour of interest rates and the thorny issue of the relationship between interest rates and savings is brought out in the fifth section. The last section of the paper looks at the question of domestic credit allocation.

The financial system in SSA is dominated by a small number of commercial banks and financial sector reforms have focused largely on the banking. Implicitly, financial sector is narrowly defined here to mean the banking sector.

2. Financial repression in theory

The theoretical analysis which provided the basis for financial liberalization in developing countries was that given by McKinnon (1973) and Shaw (1973). The focal point of their models is '*financial repression*'. McKinnon (1973) attributes the inadequate economic performance of less developed countries (SSA inclusive) to repressive economic policies pursued in the respective LDCs.

The term '*financial repression*', coined by McKinnon, refers to 'the phenomenon where bank credit remains an appendage of certain enclaves, where ordinary government deficit on current account frequently pre-empt the limited lending resources of the deposit bank, and financing of the rest of the economy must be met from the meagre resources of moneylenders, pawn brokers, and cooperatives' (McKinnon, 1973:69). Thus, in financial repression, governments tax and distort the operations of financial markets.

In financially repressed systems capital is under priced by banks. The returns on deposits are low (could be negative if inflation is significant) as banks do not charge a high enough interest rate to reflect equilibrium conditions. Potential savers under these circumstances will reduce their holdings on money or near money and save in tangible assets. This point represents one element of financial repression. Montiel (1995) lists other elements of financial repression. They include:

- restriction of entry into banking, often combined with public ownership of major banks;
- high reserve ratio;
- legal ceiling on bank lending and deposit rates;
- quantitative restrictions on the allocation of credit; and
- restriction on capital transactions with foreigners.

There are effects resulting from financial repression.² Firstly, it must be noted that competition in the financial sector is stifled and flow of loanable funds is limited to some sectors without regard to productivity. Also, demand for funds do not match supply and non-economic considerations take priority over economic considerations in the allocation of available funds. Further, banks are forced to finance low quality investments as a result of ceiling on the loan rate. Lastly, there is a drain of resources from the regulated banking sector as financial resources are channelled to 'priority' sectors of the economy.

The McKinnon-Shaw analysis suggests that interest-rate ceilings stifle savings and reduce the quality of investments. An implicit policy emerges from the McKinnon-Shaw hypothesis: the removal of interest rate ceilings and other government regulations which prevent the competitive operations in the market for funds will be beneficial to developing countries. With higher interest rates comes higher savings and investments (which contribute to growth) on the one hand, and a true reflection of scarcity of capital on the other. Allocative efficiency of capital is also enhanced. All these place the thrust of monetary policy on interest rate deregulation.

The financial repression hypothesis has come under attack from some economists. Gibson and Tsakalotos (1994) points out how misleading it is to characterise all forms of government intervention in financial markets as "*financial repression*" that should be done away with by way of removing such interventions. Governments may have to, for instance, place clear limits on the degree of competition allowed in financial markets. This is because increased and intense banking may lead to deterioration in the risk-return relationship and loosening of credit limits, falling profits, and increased speculative activity. Further, as Stiglitz and Weiss (1981) make clear, the fact that credit rationing exists even in liberalized market points to a potential role for government in allocating credit.

² Ahmed and Ansari, 1995, pp. 292-3.

The role of government in financial markets is also extolled because financial markets are subject to a variety of market failures. Financial liberalization is perceived as a way by which competition will be magnified. However, the variety of market failures that financial markets are subject to may combine to promote instability within competitive and unregulated financial markets. Stiglitz (1993) points to these market failures and highlights how government could reduce them. Gibson and Tsakalotos (1994) note that 'these failures may combine to promote instability within competitive and unregulated financial markets.' On the question of instability they write:

'The implication of potential instability induced by competitive environment within banking highlights the necessity for good supervision of banks to ensure that they do not take on too much risk. It also suggests that the monetary authorities may have to place clear limits on the degree of competition allowed in financial markets. Liberalization of financial markets thus no longer becomes an issue of replacing government control by market control' (pp. 618-619)

Stiglitz (1993) suggests that because of pervasive market failures in the financial markets, government intervention can enable markets function better and help improve the performance of the economy.³ Further, he asserts that previous empirical studies which is the focus on which those opposed to financial repression reach their conclusions are based on errors.⁴

Stiglitz (1993) further suggests 'financial repression can improve the efficiency with which capital is allocated.' This finding is based on two main factors. The first is, the quality of borrowers could be expected to increase as a result of lowering interest rates. This effect could be magnified by government assuming positive selection capabilities. Secondly, the lower cost of capital resulting from financial repression increases firm

³ p. 20.

⁴ See pp. 41-42 for details of these errors.

equity. The advantages equity capital has over loan capital leads to investments with higher expected returns. Stiglitz (1993) further point out the possibility of strong positive effects emanating from a government 'contest', such as success in penetrating export markets, set up to select those who perform well to receive the scarce capital that financial repression creates.

An implicit assumption is made in moves towards financial liberalization. That is, markets will work reasonably well when left alone. Keynesian economics, however, posit that markets are not necessarily self-equilibrating (at full employment) because of, among other things, the role of expectations. In an extension to this line of thought, it has been shown in the case of financial markets that, in the absence of government involvement, credit rationing could persist in a perfectly competitive loan market. The analysis of Stiglitz and Weiss (1981) portray that some groups or sectors of the economy could be completely excluded from getting credit from banks even if their projects offer higher expected returns. Thus the case for some measure of government intervention in financial markets still persists.

The financial repression hypothesis has its foundation in neo-classical economic tradition. A general criticism that has been levelled against this tradition is that its view on the role of institutions are negative. Their view of the role of institutions, it is argued, conflicts with what goes on in any real economy where markets work through a whole network of institutions. Inclusive in these institutions are trade unions, firms, and the state who play a crucial role in collecting information and reducing uncertainty (also see Soskice, 1991, for arguments on the role of institutions in developing long-term relationships between market participants). Neoclassical economic tradition generally view institutions as playing a negative role by inducing rent-seeking behaviour. This stems, in part, from their role in general equilibrium theory where institutions are largely absent and participants in

markets meet briefly to conduct trades which occurs instantaneously and markets always clears.⁵

Nevertheless, there are costs associated with a financially repressed system. Dooley and Mathieson (1987) highlight some of the substantial costs associated with financial repression. They point out that a financially repressed system offers domestic residents little opportunity to diversify their investment portfolios leading them (domestic residents) to look to foreign financial markets in order to diversify their risks. Secondly, due to the restriction on portfolio selection, there is less incentive to give loans to profitable projects and the level of monitoring is far less than optimal. Thirdly, financial flows through the organized sector is reduced due to the inefficiencies and taxation in the system. Bank deposits become unattractive relative to real assets. The demand for broad money falls as a percentage of GDP.⁶ Lastly, the transformation services which help convert illiquid claims on individual borrowers into liquid deposits are adversely affected. The services they perform enables the demands of borrowers and creditors be matched. Financial institutions are unable to match these demands and pooling risk because of the restrictions on portfolio selection and interest rate ceilings. This means a full set of transformation services are not provided.

2.1 Reasons for Financial Repression

Some of the costs associated with financial repression as discussed above by Dooley and Mathieson (1987) clearly portray the shortcomings of financially repressed systems. It must be added that financial repression tend to erode the tax base of some countries. This is due to the fact that depositors are attracted to alternative markets with higher yields. Borrowers also find that they can obtain funds (at unsubsidized rates, though) that they cannot obtain in the formal domestic markets because of credit rationing from these

⁵ See Gibson and Tsakalotos (1994), p. 604.

⁶ *ibid*, pp. 584-585

alternative markets. The alternative markets are many a time not liable to the taxes imposed on the formal financial market and may be operating internally or externally. World Bank (1989)⁷ lend support to this argument. They note that financial repression give rise of unofficial money markets (curb market) that are not subject to any government regulation (be it taxes, supervision or otherwise).

Various reasons have been put forward to explain why governments in developing countries have resorted to repressing the financial sector. Three of these reasons are as follows:

- (a) Fear of oligopolistic competition in the financial sector dominated by opportunistic private individuals and groups is a reason why government's role in financial intermediation is significant in SSA. Governments also fear that if interest rate determination were left to free market forces, the system will be abused by the oligopolistic owners of financial institutions.
- (b) Financial repression enables governments to require financial institutions to lend to specific activities and provide credit at subsidized rates. Further, governments borrow with ease to finance budget deficits. High reserve ratios also ensures ready access to government borrowing.
- (c) Revenues derived from taxing financial intermediation is one main reason why governments in SSA resorted to financial repression. The financial system is used 'as a way to extract resources by levying an inflation tax on currency, and by borrowing at less than market rates through the imposition of interest rate ceilings.' (Montiel, 1995:18). Thus, the volume of resources extracted from the financial system is a measure of financial repression. Chamley and Honohan (1990) measured the revenues derived from financial repression in five SSA countries

⁷ p. 67

over the period 1978 to 1988. The countries involved in the study were Ghana, Cote d'Ivoire, Kenya, Nigeria, and Zambia. They conclude that the financial sector has been very heavily taxed in comparison to other sectors. Montiel (1995:19) writes

'...using the magnitude of government revenue from financial repression as an indicator of the intensity of repressive policies toward the banking system, the historical record suggests that sub-Saharan African countries fit squarely within the financial repression paradigm.'

3. Financial structure before liberalization⁸

Governments in the economies studied here were heavily involved in the banking sector before liberalization. Table 1 depicts the number of banks in operation in the respective countries in 1982 and indicates the level of public ownership. Due to lack of data availability, the table does not include Mauritius and South Africa. The formal financial sectors were dominated by a small number of commercial banks. The total number of banks operating in these seven countries were seventy (70) with governments being either majority or minority shareholders in forty three (43) of them.

The regulatory structure and supervision of banks was poor. The nature of ownership created a situation of self regulation and supervision by banks. The legal framework guiding banking activities were weak and governments were either unwilling or unable to enforce financial discipline. World Bank (1994, table 4.5) reveal that both lending and deposit rates were set for seven (7) countries in this study.⁹ This discouraged the rise of profit motivated private sector borrowers as credit was directed to preferential

⁸ This section is based on the information provided in World Bank (1994) table 4.6 and the appendix in Montiel (1995).

⁹ South Africa and Mauritius were not included in the table. See table 2.

programmes. Further, potential savers preferred to save in more tangible assets or export their capital abroad. Green (1987) referring to Ghana wrote:

'Public policy more broadly defined certainly has deterred private sector investment and encouraged smuggling savings out of Ghana and/or causing profits to be received elsewhere. In addition, by reducing the levels both of capacity utilization it has lowered actual savings levels as well as discouraging their investment in Ghana.' (p. 9)

It is of little surprise that the World Bank (1994:110) point to the following as 'traditional characteristics' of the financial system in SSA;

- weak resource mobilization
- high credit losses
- high intermediation cost
- excessive political interference

These partly reflect government policy of ownership, interest rates, directed credits, and heavy taxation.

4. Development of the financial sector

Many economists have stressed the importance of financial development to economic growth. One implication of the '*financial repression*' hypothesis is that the financial system of a repressed economy will tend to be shallow because of the capital flight that may occur. Financial liberalization is meant to ensure higher levels of domestic savings/investments and a more efficient allocation of capital. Increased intermediation between savers and investments, therefore, represents financial deepening.

A wide variety of indicators of financial structure and development are discussed in Goldsmith (1969). For the purpose of this study, the ratio of currency, demand deposits and quasi-money to GDP (M2/GDP) and the ratio of currency to M2 will be used as a measure of financial depth as well as performance yardstick in the countries surveyed. It is expected that the M2/GDP ratio will rise over time as the effects of liberalization permeate the economies considered here.

Figure 1 depicts the relationship between the ratio of money and quasi-money to GDP (M2/GDP) and the ratio of currency to GDP in each of the nine countries studied here for the period 1980-94. It has already been stated above that financial sector reforms have focused largely on banking. This seem to be the case because the banking sector dominates the financial sector in the countries surveyed and investing enterprises tend to depend on banks to finance their investments. The reforms represent a major undertaking to promote an efficient allocation of financial resources and stimulate private savings. It could, thus, be said that low levels of M2 to GDP seriously hampers the ability of domestic banks to provide credit.

McKinnon (1973) stresses the need for banks and depositors to earn high equilibrium rates of return. This increases the efficiency of bank lending which he sees as '*a necessary condition for enlarging the real size of the monetary system and for alleviating financial repression*'. Figure 1 attempts to measure the size of the monetized system in the nine (9) SSA countries.

In four (4) of the nine (9) countries -Côte d'Ivoire, Ghana, Senegal, and Uganda- the ratio of currency to GDP has consistently been higher relative to the ratio of M2 to GDP. This trend has persisted even after extensive liberalization (in the case of Ghana). The averages for the period 1990-94 tells a lot about effects of liberalization considering that liberalization started in the late 1980s.

The ratio of currency to M2 is very low in developed financial systems. Table 3 depicts the period averages for each country studied here. The high ratios, especially in the case of Ghana, Senegal, Tanzania, Uganda, and Côte d'Ivoire paint a picture of poor financial system performance. Kenya, Mauritius, South Africa, and Zimbabwe on the other hand have low ratios. When the ratios of M2 to GDP are considered, the financial systems of Ghana, Côte d'Ivoire and Uganda appear as the worst of the countries studied (with shallow financial markets). Mauritius on the other hand has a deep financial system by the measure adopted here.¹⁰

Figure 1 portrays the financial system of Mauritius as having a systematic and continuous growth. The ratio of currency to M2 has been falling consistently from 1980 to 1994 while the ratio of M2 to GDP has been rising continuously over the same period. This finding is in sharp contrast to countries like Senegal, Uganda, and Ghana. In Senegal, for instance, what has been experienced is a consistent fall in the ratio of M2 to GDP and a persistent rise in the share of currency in M2. The Ghanaian financial system, on the other hand, has experienced a significant fall in the ratio of currency to M2 and a rise in the ratio of M2 to GDP between the period 1989-1994. It must be added that the ratio of M2 to GDP in 1994 is only at the level that it was in 1980. This is less than half the level in Mauritius in 1980. Senegal was roughly at the same level in 1993. The available data suggest that Uganda has never reached this level of ratio of M2 to GDP between the years 1980 and 1990. Further the ratio of M2 to GDP in 1980 (0.14) is lower than that in 1993 (0.09) and the ratio of currency to M2 is only 0.03 lower than the ratio in 1980 (0.36).

Rouis (1996:294-5) notes the inefficiencies of the Senegalese banking sector. Mans (1996:367-69) point to the poor state of the Tanzanian financial system. The sad state of the Ghanaian financial sector is revealed in Leechor (1996:166-7). All these have effect on the confidence people have in the banks. The high ratios of currency to M2 and low ratios of M2 to GDP in most of the countries suggests low confidence in the banks. The

¹⁰ See table 4.

structuralist school sees the size of the financial sector as a major determinant of economic growth.¹¹ What the low levels of M2/GDP means for these countries, therefore, is sluggish growth at best.

Kenya, South Africa and Zimbabwe on the average have a deeper financial systems than the group of countries described in the preceding paragraph but they do not come close to Mauritius which is in a class of its own in the cluster of countries considered here. Looking at Kenya and Zimbabwe, it is found that the highest level of ratio of M2 to GDP recorded between 1980 and 1994 (0.38 and 0.33 respectively)¹² is less than the lowest ratio of M2 to GDP recorded for Mauritius in the same period (0.39), albeit not significantly. The ratios for both countries have been increasing from 1985 although slight falls could be detected in some years.¹³ South Africa showed a remarkable increase in financial depth between 1986 and 1990 with rising M2/GDP ratios and falling currency/M2 ratios.

The performance of Côte d'Ivoire and Tanzania has been mixed over the period considered. This is especially so of Tanzania. Tanzania has experienced falling and rising ratios of both M2/GDP and currency/M2. The period 1985-1990 saw increasing ratios of currency/M2 and falling ratios of M2/GDP. This contrasts the period 1980-84 when M2/GDP ratios were higher than currency/M2 ratios. Both these ratios have been on the rise since 1992. Côte d'Ivoire's seemingly continuous fall in currency/M2 ratios and continuous rise in M2/GDP ratios since 1980 hit a climax in 1988. There has been no clear trends established in the period after 1988 to the present. Comparisons could be drawn between Tanzania and Mauritius for the period 1980-1984. Thereafter, the only time Tanzania came close to the levels attained in the said period was in 1993. For Côte d'Ivoire, the best performing years (where their highest levels of M2/GDP has been

¹¹ See Spears, 1992, p. 362.

¹² The available data for Zimbabwe is for the period 1980-1990.

¹³ 1983 in the case of Zimbabwe and 1985, 1988-89 for Kenya.

achieved) have been lower than the worst performing year of the financial system of Mauritius over the sample period.

The countries surveyed show interesting differences and similarities, in a sense. What is of interest in this paper is why the financial system of Mauritius, for example, is miles ahead of others in terms of depth of the financial system. Pagano (1993) and Roubini and Sala-i-Martin (1992) argue that public policy is a determinant of financial development. What they suggest is that the level of financial repression determines growth or the depth of the financial system. Further, public policy may affect financial development selectively as Jappelli and Pagano (1992) show. This case may arise if some markets for credit, for example consumer credit and mortgage loans, are repressed. Pagano (1992:620) discusses one possibility of such repression and writes

' This probably reflects a public concern to force households to save more and to direct credit towards industrial rather than residential investment.'

If this is taken to be the case, the reactions of depositors to this selective repression becomes pertinent especially if interest rates are regulated and negative. This is because, as has already been pointed out earlier on, depositors could be attracted to alternative markets with higher yields. The alternative markets are many a time not liable to the taxes imposed on the formal financial market and may be operating internally (e.g., curb market for loans) or externally.

Dornbush and Reynoso (1989) empirically investigates the relationship between financial deepening and growth. Although correlation between the two was established, the correlation was not tight. They write

'... it is apparent that by judicious choice of sample any correlation can be generated.' (p. 205)

Akyüz (1993:27-30) discusses various factors which generates financial deepening resulting from liberalization. He concludes that 'financial deepening brought about by liberalization is not necessarily associated with a higher level and/or better use of savings.' Further, empirical evidence show no strong correlation between financial deepening and growth. The degree of financial deepening, therefore, may not be a good indicator of the links between finance and growth.¹⁴

5. Behaviour of interest rates

Liberalizing interest rates has been one of the main policy prescription of structural adjustment (or financial liberalization moves) in SSA. Interest rate ceilings brings about a 'wedge between the social and private rates of return on asset accumulation, thereby distorting intertemporal choices in the economy' (Agenor and Montiel, 1996:152). Villanueva (1988) stresses the importance of interest rate reforms by pointing to the implications interest rate reforms has on monetary control and savings mobilization. In liberalizing or deregulating interest rates, an attempt is made to market determination of interest rates. This involves an abolition or reduction of controls on both lending and deposit rates.

Two opposing effects on the relation between savings and interest rates can be discerned. Firstly, an increase in real interest rates causes consumers to postpone present consumption and increase savings (substitution effect). But there is also an increase in income as a result of the increase in interest rates. This increase income fuels demand and increases consumption (income effect). Thus the net effect of increased interest rates on savings is not very clear. Dornbush and Reynoso (1989:205) reiterate this point. However, a switch from negative to positive interest rates can have important effect on financial savings (IMF, 1983). This effect stems from the fact that with negative interest rates, potential savers may prefer to save in more tangible assets or export their capital abroad.

¹⁴ See Dornbush and Reynoso (1989), p. 205.

As table 2 depicts, seven (7) of the nine countries studied here set interest rates before structural adjustment was launched. Interest rate liberalization or deregulation was, thus, to align interest rates toward market equilibrium (World Bank 1994:112) which would implicitly encourage savings. Studart (1995:273-74), on the other hand, notes the lack of empirical evidence of a strong relationship between the rate of interest and the supply of savings.

McKinnon (1973) stresses the need for high equilibrium interest rates. This is contrary to the Keynesian view of low interest rates promoting investments and hence growth. McKinnon (1973) view suggest that interest rate ceiling stifle savings and increase current consumption. Glower (1994) points out that liberalization may result in interest rate variability (or more precisely, overshooting). That is, a higher than expected increase in the post reform level of interest rate. The experiences of SSA suggest that low positive real interest rates have not been achieved after liberalization. Montiel (1995) states that *'countries have tended either to continue to have negative interest rates or high positive rates.'* Of the countries included in the study here, the World Bank (1994, table A.4) note that Côte d'Ivoire and Senegal had 'highly positive' interest rates for deposits for the period 1990-91. For the same period, Ghana, Kenya and Uganda were put in the 'acceptable range' while Zimbabwe was placed in the 'highly negative' category.¹⁵

Stiglitz and Weiss (1981) advance arguments against high interest rates. They point out that attempts to charge higher interest rate negatively affects the quality of a bank's loan because of two effects: incentive and adverse selection effects.

Firstly, it raises the overall riskiness of the portfolio of assets. Rising interest rates reduces the returns on all projects and makes less risky projects unprofitable (incentive effect). This makes firms switch to more risky projects as interest rates rise. Secondly, banks have to screen borrowers. If the screening device employed is interest rate, they may attract bad

¹⁵ Mauritius and South Africa was not included in the table and Tanzania was also not classified.

risks. This is because borrowers, at a high interest rate, may be less worried about the prospect of non payment (adverse selection effect). Banks could monitor the behaviour of borrowers but information is at a cost and also, not perfect. This implies that the rational profit maximizing bank will practice credit rationing which defeats the assumption generally made in financial liberalization literature, that of interest rate liberalization eliminating credit rationing.

Studies by Nissanke (1990) of a number of SSA countries have found that interest rate deregulations have had little impact on savings. Choo and Khatkhate (1990) also studied financial liberalization experience of five (5) Asian countries and found the relationship between interest rate and savings to be ambiguous. Figure 2 depicts the trend (graphically) of real interest rate for deposits and domestic saving rates in each of the nine (9) countries. No clear relationships are established between real interest rates for deposits and domestic savings rate for these countries. These findings have interesting bearings on the implication of the assertion that financial repression leads to reduced savings. The removal of the financially repressive policies should significantly (in the positive sense) affect savings. Why this is not so suggests that decisions to save is also influenced by other factors.

Interest rates have been volatile for all the countries during the period 1980-94. Although no clear relationship have been established between interest rates and domestic saving rate, it is worth mentioning that apart from South Africa where gross domestic saving rate was more than 30 per cent of GDP for the years 1980 and 1981, no other country in the study exceeded this figure for the entire period (1980-1994). Looking at the period 1990-94, it could be seen that Côte d'Ivoire, South Africa, and Senegal had largely experienced positive interest rates whiles the experiences of Ghana, Mauritius, and Zimbabwe have been mixed.

An issue of interest here is the comparative performance in maintaining reasonable interest rates of countries like Ghana, Kenya and Tanzania on the one hand where the setting of deposit rates are totally left to market forces, and countries like Côte d'Ivoire, Senegal and Zimbabwe on the other hand where government still exercise some controls. The World Bank has categorized some of these countries as has been pointed out above. Granting that liberalization started during the late 1980s, country experiences for the period 1990-94 could be an indicator of policy response. However, incomplete data for most of these countries (4 countries to be precise) during this for period hinders meaningful analysis.

Uganda represents an interesting case. Interest rate controls were still in place as late as 1992. Real deposit rates have been negative from 1985 hitting an all time low of -62.5% in 1987. By 1992, interest rates oscillated within a range which is comparable to that of Ghana which had completely liberalized interest rates since 1988. It would be expected that Ghana would outperform Uganda in achieving a reasonably positive real interest rates. However, World Bank categorization have both Ghana and Uganda in a similar range as indicated above.

A possible explanation for the poor performance of Ghana in this instance could be found in experiences from other countries which indicate that implementing policy changes may require prior changes. Sound supervision and regulatory mechanism should be improved before interest rate liberalization (Villanueva, 1988). Villanueva notes that interest rate liberalization in an unsound and poorly supervised banking environment could produce excessive fluctuations and significant distortions in the level, structure, and responsiveness of interest rates. In Ghana, the banking law strengthening bank regulation and supervision was introduced in 1989, a year after interest rates were liberalized.¹⁶

¹⁶ See World Bank (1995), p. 101.

Many writers on the subject of financial liberalization have emphasized the need for proper sequencing in implementing liberalization policies.¹⁷

Côte d'Ivoire and Senegal (both belonging to the CFA zone) have by and large experienced high positive interest rates. This partly reflects fixed exchange rate regimes and overvalued currencies.¹⁸ Low inflation rates experienced in these countries over the years have also contributed to this high positive rates.

6. Credit allocation

The financial repression hypothesis emphasizes governments' prouess in limiting access of funds to the private sector in repressive systems. Thus in financially repressed systems, credit allocated to government identified priority sectors often swallow a relatively large portion of resources available. Financial repression then becomes a tool by which governments allocate credit to itself and to public enterprises. Financing of the rest of the economy, as McKinnon (1973) notes, must therefore be met from 'the meagre resources of moneylenders, pawn brokers, and cooperatives' (p. 69).

There are therefore consequences arising from financial repression for the distribution of credit. This is because there is a transfer of resources from actual and potential savers (as well as from excluded borrowers) to favoured borrowers (as is usually the case the public sector).¹⁹ Liberalization aims at enabling investors with sound projects which can earn high marginal rates of return have access to funds from lending institutions (banks). With reduced quantitative restrictions, financial intermediaries gain greater control over the use of their liabilities. The private sector, which has been said to be the backbone of a viable economy, is thereby encouraged to participate in economic activities.

¹⁷ See for instance Blejer and Sagari (1988), and Turtelboom (1991).

¹⁸ See World Bank (1994), p. 114 and Montiel, 1995, p. 21.

¹⁹ Agenor and Montiel, 1996, p. 153.

The performance of the private sector in the 1990s in SSA countries is of paramount importance. This is so because the performance of this sector is, in a sense, a measuring rod of policy response to structural adjustment policies. The causes of rising or falling share of the claims on private sector relative to the claims on central government is not what is being investigated here. The trends of these claims is the focal issue considered. Figures used here to detect changes or otherwise are mainly period averages for the period 1980-86 and 1987-94.²⁰

This section portrays the changes in credit allocated to the private sector and the central government over the period under consideration. Figure 3 captures (graphically) the trends and changes in credit allocation in the nine SSA countries studied here. For simplicity, the countries involved are broken down into four (4) groups. The composition of the groups are as follows:²¹

<u>Group 1</u>	<u>Group 2</u>	<u>Group 3</u>	<u>Group 4</u>
Côte d'Ivoire	Ghana	Tanzania	South Africa
Senegal	Kenya	Zimbabwe	Mauritius
		Uganda	

Table 5 indicates the period averages for the countries in the above grouping. The two countries in the first group present an interesting contrast. While claims on domestic credit shifted in favour of the private sector for Côte d'Ivoire in the second period, the opposite occurred for Senegal. Claims on central government, in the case of Côte d'Ivoire, was down by approximately 60% by the end of the second period relative to the first and that of the private sector appreciated. Senegal, on the contrary, experienced a huge decline in claims on private sector (which tumbled over 100%) during the second period relative to the first period while claims on central government appreciated enormously over the

²⁰ Given that structural adjustment started after the mid-1980s, these aggregate figures may indicate patterns before and after adjustment.

²¹ The first group comprise of the CFA countries in the study; the second group comprise of countries who have implemented major reforms; the third are poor adjustment countries; and the fourth more or less, non adjustment countries in the study.

first period. The experiences of Senegal over the two periods suggests a higher magnitude of financial repression in the 1990s relative to the 1980s.

Incomplete data for Kenya shortens the period of analysis for the second period by a year. By and large, the countries in the second group have experienced a reorientation of claims on domestic credit towards the private sector. The reorientation, though, has been more significant in the case of Kenya. Figures for the end of second period (averages) underlines this. The private sector in Kenya benefited immensely during the second period relative to the first where massive payments were made to the banking system by the sector. The period averages suggest that reductions in the claims on central government (and indeed public enterprises) in Ghana over the two periods have been minor. The central government continued to consume a largest share of domestic credit and has been dominant in the competition for credit.

With the exception of Zimbabwe, the data available for the other two countries (Tanzania and Uganda) in this group are insufficient to enable a comparative analysis for the two periods proposed. However, the period average for the two countries in the first period fits the financial repression hypothesis. The claims on central governments and official entities in the two countries accounted for over 90% and 70% of domestic credit in Tanzania and Uganda, respectively.

Statistics on Zimbabwe portrays a picture different from the other two countries in the group for the first period. Claims on private sector was actually greater than that of central government. The situation though changes if claims on non public enterprises is considered. Remarkably, it could be seen that for the second period, the private sector received a greater share of domestic credit. Contrary to the first period, this remains the case even if claims on central government and that of non public enterprises are put together.

The experiences of Mauritius and South Africa (in group 4) has been very different from the other countries in the study. This is so because, especially in the case of South Africa, competition for domestic credit has mainly been among 'players' in the private sector. The private sector was allocated basically all the credit created in the first period in South Africa. Claims on central government was almost 40% of total domestic credit in Mauritius during the first period. The second period experiences differed as central government claims was significantly lower and the period average indicate payment made to the domestic banking system. The reduced claims on domestic credit by the central government effectively increased the flow of resources to the private sector during the second period.

Looking at the changes over the years in the data (table 5), significant and dramatic changes in some years could be seen. The aggregate statistics (period averages) used here do mask these changes in that they suggest smooth movements. These aggregate statistics are, however, important indicators of trends in these countries over time.

Concluding remarks

Financial liberalization in SSA has generally aimed at, among other things, mobilizing domestic savings, achieving a reasonable levels of real positive interest rates and improving efficiency in the use of financial resources. This region shares many characteristics but the initial financial (as well as economic) conditions varied from country to country before financial liberalization policies were adopted. Actual adoption or implementation of reforms in some of the countries in the study have been far more extensive relative to others. Countries adopting financial liberalization measures hope to remove the distortions (supposedly brought about by *financial repression*) that afflict their economies.

The financial repression hypothesis has been discussed in the paper and some objections to the hypothesis and as well as weaknesses noted. Looking at what constitutes financial repression, it is clear that financially repressive systems were prevalent in the SSA region. Despite the strong objections to the financial repression hypothesis and its effect on developing countries, the general picture of SSA (in the early 1980s) makes a clear case for the need of reforms of the financial system to enable it serve better the needs of the real sector.

The role of government in a liberalized system has been a contentious issue. While it may be tempting to dismiss the notion that government could play an important role in a financial system, as far as the McKinnon-Shaw thesis is concerned (and in view of past experiences of SSA), the analysis of Stiglitz (1993) and Stiglitz and Weiss (1981) portray that the influence of government should prevail because of failures the financial system is subject to. Gibson and Tsakalotos (1994) also alert of the misleading conclusions of characterizing all government interventions as policies in 'need of policy liberalization.' Two things stand out clear: Firstly, government activities (created by its overwhelming dominance of the financial sector) contributed to the dismal performance of the financial system in SSA. Secondly, despite the first point, governments in SSA still have a role to play in the financial system of SSA.

The financial development of eight of the nine SSA countries over the period 1980-1994 studied in the paper does not show any radical and positive change in financial depth. Mauritius is the only country in the study whose financial system has continued to deepen over the years. However, this country has not been keen in adopting as implementing financial liberalization measure proposed by World Bank and IMF. Also, the statistics on the relationship between domestic savings and real deposit rates does not establish that interest rate liberalization has had the desired effect. Furthermore, apart from South Africa and Mauritius, governments in the other seven countries continue to claim a significant share of domestic credit. It could, however, be said that the private sector claims on

domestic credit have improved if the situation is looked at from the 'big screen' but more needs to be done to ensure that private sector receives the necessary credit to finance projects that promises higher returns.

On a general note, what the trends in financial development, behaviour and responsiveness of domestic credit to interest rates, and domestic credit allocation portray in the majority of the countries studied here is stagnation at best. These trends have contradicted the overwhelming response expected resulting from financial liberalization.

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**Table 1 Government participation in the capital of commercial banks
(number of banks)**

COUNTRY	1982 (70 banks)			1992 (80 banks)		
	Majority shareholder	Minority shareholder	No. share	Majority shareholder	Minority shareholder	No. share
Côte d'Ivoire	2	5	5	2	4	9
Ghana	7	2	2	5	3	4
Kenya	3	1	9	4	2	20
Senegal	2	5	3	2	3	3
Tanzania	6	0	0	5	0	0
Uganda	2	5	2	2	4	3
Zimbabwe	2	1	6	1	1	3
TOTAL	24	19	27	21	17	42

Source: World Bank, Adjustment in Africa, 1994, p. 119.

Table 2: Interest rates regulation before and after liberalization

Country	Interest rate			
	<i>(for deposit)</i>		<i>(for loans)</i>	
	<i>Before reforms</i>	<i>Late 1992</i>	<i>Before reforms</i>	<i>Late 1992</i>
Côte d'Ivoire	•	⊕	•	⊗
Ghana	•	○	•	○
Kenya	•	○	•	○
Senegal	•	⊕	•	⊗
Tanzania	•	○	•	⊕
Uganda	•	•	•	•
Zimbabwe	•	⊗	•	⊗

- rate set
- ⊗ spread regulated
- ⊕ minimum deposit rate/maximum lending rate set
- no government control
- no data available

Source: World Bank, Adjustment in Africa, p. 115.

Table 3 **Ratio of Currency to M2 (period averages)**

Country/Period	1980-1985	1986-1990	1991-1994
Côte d'Ivoire	0.34	0.32	0.31
Ghana	0.52	0.48	0.34
Kenya	0.18	0.19	.....
Mauritius	0.17	0.12	0.10
South Africa	0.08	.....	.....
Senegal	0.40	0.41	0.43
Tanzania	0.31	0.36	0.34
Uganda	0.37	.....	.....
Zimbabwe	0.14	0.15	0.14

* no figure is given if one or more observations are not recorded during the period.

Source: Calculated from figures provided by IMF (1995)

Table 4 **Ratio of M2 to GDP (period averages)**

Country/Period	1980-1985	1986-1990	1991-1994
Côte d'Ivoire	0.28	0.30	0.31
Ghana	0.15	0.15	0.17
Kenya	0.29	0.29	.....
Mauritius	0.43	0.60	0.73
South Africa	0.36	.....	.....
Senegal	0.29	0.41	0.43
Tanzania	0.32	0.36	0.34
Uganda	0.11	.....	.....
Zimbabwe	0.31	0.31	.....

* no figure is given if one or more observations are not recorded during the period.

Source: Calculated from figures provided by IMF (1995)

Table 5 Changes in credit allocation (1980-94)

Cote d'Ivoire															
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Domestic credit (billions of Francs)	844.90	1040.50	1119.60	1335.70	1351.60	1320.50	1360.50	1384.10	1456.50	1374.30	1307.10	1303.30	1334.60	1289.30	1372.40
Changes in credit created		195.60	79.10	216.10	15.90	-31.10	40.00	23.60	72.40	-82.20	-67.20	-3.80	31.30	-45.30	83.10
Claims on Central Govt. (Net), % of total credit		59.41	19.60	61.87	156.60	44.37	57.25	-284.75	120.17	42.09	38.84	-328.95	483.71	-19.87	156.20
Claims on Private Sector, % of total credit		41.26	82.55	36.56	-79.87	68.17	16.50	353.39	-9.81	53.28	50.30	178.95	-381.79	110.60	-49.82
Claims on other financial Institutions, % of total credit		-0.61	-2.15	1.57	23.27	-12.22	26.25	32.20	-10.36	4.62	11.01	252.63	-1.60	7.95	-7.22
Period Averages (1981-86, 87-94)															
Claims on Central Govt. (Net), % of total credit							66.52								25.93
Claims on Private Sector, % of total credit							27.53								38.14
Claims on other financial Institutions, % of total credit							6.02								36.15
Ghana															
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Domestic credit (billions of cedis)	9.49	15.48	18.83	32.43	48.72	77.82	119.00	205.00	196.00	243.00	253.00	460.00	666.00	1015.00	1211.00
Changes in credit created		5.99	3.34	13.60	16.29	29.10	41.18	86.00	-9.00	47.00	10.00	207.00	206.00	349.00	196.00
Claims on Central Govt. (Net), % of total credit		68.96	12.20	124.97	57.71	36.40	70.30	93.02	100.00	-80.85	90.00	95.17	67.48	81.66	9.69
Claims on Nonfin. Pub. Enterprises, % of total credit		23.91	80.41	-34.89	18.11	41.34	8.94	0.00	133.33	70.21	-110.00	12.08	8.25	4.58	45.92
Claims on Private Sector, % of total credit		6.71	6.46	9.41	19.27	16.10	20.25	5.81	-100.00	106.38	120.00	-2.90	24.27	13.75	43.88
Claims on other financial Institutions, % of total credit		0.43	0.90	0.52	4.89	6.16	2.94	1.16	-11.11	6.38	0.00	.....	.....	.....	.....
Period averages (1981-86, 87-94)															
Claims on Central Govt. (Net), % of total credit							61.76								57.02
Claims on Nonfin. Pub. Enterprises, % of total credit							22.97								20.55
Claims on Private Sector, % of total credit							13.03								26.40
Claims on other financial Institutions, % of total credit							2.64								.....

Kenya

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Domestic credit (millions of Shillings)	16230.00	20264.00	26058.00	25944.00	28628.00	32173.00	41025.00	49139.00	52529.00	55761.00	70356.00	83821.00	98554.00	96934.00	.....
Changes in credit created		4034.00	5794.00	-114.00	2684.00	3545.00	8852.00	8114.00	3390.00	3232.00	14595.00	13465.00	14733.00	-1620.00	.....
Claims on Central Govt. (Net)		69.76	67.83	1748.25	32.08	22.34	58.62	53.73	-45.34	-27.32	67.97	27.67	-0.89	226.91	.....
Claims on Local Govt., % of total credit		-0.32	0.17	1.75	0.04	0.03	0.09	0.20	0.91	-0.93	0.08	0.01	0.57	-4.38	.....
Claims on Nonfin. Pub. Enterprises, % of total credit		-0.10	3.57	-524.56	14.46	5.90	0.25	21.68	-4.25	-19.71	3.17	5.66	0.29	7.28	.....
Claims on Private Sector, % of total credit		31.38	22.99	-897.37	58.27	71.85	36.07	18.12	115.34	145.27	26.65	60.19	93.90	-192.47	.....
Claims on other financial Institutions, % of total credit		-0.74	5.47	-227.19	-4.84	-0.08	4.97	6.25	33.36	2.69	2.13	6.47	6.12	62.72	.....
Period averages (1981-86, 87-93)															
Claims on Central Govt. (Net)							333.15							43.25	
Claims on Local Govt., % of total credit							0.29							-0.50	
Claims on Nonfin. Pub. Enterprises, % of total credit							-83.41							2.02	
Claims on Private Sector, % of total credit							-112.80							38.14	
Claims on other financial Institutions, % of total credit							-37.07							17.11	

Mauritius

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Domestic credit (millions of Rupees)	4435.30	5902.20	6897.30	8051.30	9269.90	10081.90	10947.40	11619.60	13620.40	15278.80	17708.90	22224.60	26550.10	33222.90	40856.80
Changes in credit created		1466.90	995.10	1154.00	1218.60	812.00	865.50	672.20	2000.80	1658.40	2430.10	4515.70	4325.50	6672.80	7633.90
Claims on Central Govt. (Net), % of total credit		74.23	79.72	70.88	49.91	-48.79	4.53	-136.72	4.67	-15.20	6.54	49.96	16.58	22.49	38.45
Claims on Private Sector, % of total credit		25.77	20.28	29.12	50.09	148.79	95.47	236.72	95.33	115.20	90.23	48.52	79.78	78.51	62.75
Period averages (1981-86, 87-94)															
Claims on Central Govt. (Net), % of total credit							38.41								-1.65
Claims on Private Sector, % of total credit							61.59								100.88

South Africa															
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Domestic credit (millions of Rand)	19433.00	25933.00	28161.00	32390.00	40942.00	49639.00	51850.00	60000.00	79872.00	106051.00	.....	.....	.....	.....	.....
Changes in credit created		6500.00	2228.00	4229.00	8552.00	8697.00	2211.00	8150.00	19872.00	26179.00	.....	.....	.....	.....	.....
Claims on Central Govt. (Net), % of total credit		13.35	-107.23	-14.64	-6.84	21.02	-23.93	2.10	-3.18	-3.51	.....	.....	.....	.....	.....
Claims on Private Sector, % of total credit		86.63	207.23	114.64	106.84	78.98	123.93	97.90	103.19	103.51	.....	.....	.....	.....	.....
Period averages (1981-86, 87-89)															
Claims on Central Govt. (Net), % of total credit							-19.71								
Claims on Private Sector, % of total credit							119.71								
Senegal															
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Domestic credit (billions of Francs)	301.70	379.55	456.93	489.56	509.94	554.20	553.07	557.51	595.00	574.78	523.66	510.65	505.24	492.74	525.98
Changes in credit created		77.85	77.38	32.63	20.38	44.26	-1.13	4.44	37.49	-20.22	-51.12	-13.01	-5.41	-12.50	33.24
Claims on Central Govt. (Net), % of total credit		29.51	60.25	55.32	72.72	44.22	-250.44	-169.37	15.63	122.21	38.15	-16.83	503.33	149.60	331.74
Claims on Private Sector, % of total credit		69.97	39.75	41.99	24.88	52.21	444.25	268.47	81.36	-50.94	60.58	116.76	-399.26	-53.68	-230.81
Claims on other financial Institutions, % of total credit		0.53	0.00	2.70	2.36	3.50	-97.35	1.13	3.01	28.73	1.27	0.15	-4.07	4.16	-0.90
Period averages (1981-86, 87-94)															
Claims on Central Govt. (Net), % of total credit							1.93								121.81
Claims on Private Sector, % of total credit							112.17								-25.94
Claims on other financial Institutions, % of total credit							-14.71								4.19

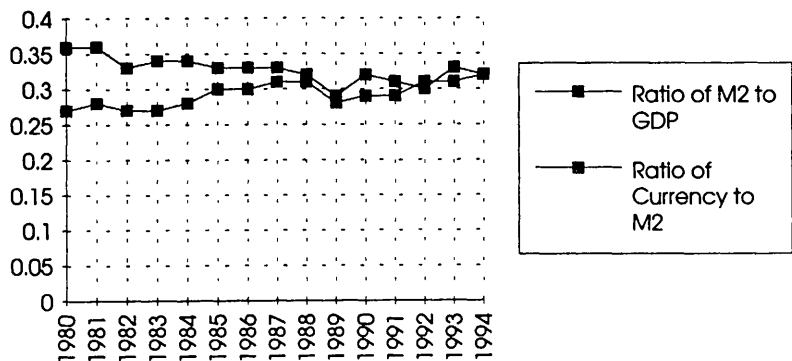
Tanzania															
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Domestic credit (billions of Shillings)	18.25	22.33	27.07	31.13	38.51	51.40	56.66	87.51	119.94	.....	.....	.....	401.16	526.66	.....
Changes in credit created		4.08	4.74	4.06	7.38	12.89	5.26	30.85	32.43	.....	.....	.....	.....	125.50	.....
Claims on Central Government (Net), % of total credit		72.06	78.06	74.63	61.52	59.66	21.86	3.47	44.84	.....	.....	.....	.....	32.95	.....
Claims on Official Entities, % of total credit		25.74	12.24	22.41	45.12	32.51	67.11	87.16	48.47	.....	.....	.....	.....	47.19	.....
Claims on Private Sector, % of total credit		1.96	10.34	4.43	-6.78	7.84	10.27	9.43	6.69	.....	.....	.....	.....	18.73	.....
Claims on other Financial Institutions, % of total credit		0.00	-0.21	.....	.....	.....	.....	-0.06	-0.03	.....	.....	.....	.....	1.13	.....
Period averages (1981-86, 87-88)															
Claims on Central Government (Net), % of total credit							61.30		24.15						
Claims on Official Entities, % of total credit							34.19		67.82						
Claims on Private Sector, % of total credit							4.68		8.06						
Claims on other Financial Institutions, % of total credit							.....		-0.05						
Uganda															
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Domestic credit (millions of Shillings)	211.00	430.00	582.00	803.00	1152.00	2876.00	5299.00	.....	.....	.....	.....	.....	487348.00	448155.00	.....
Changes in credit created		219.00	152.00	221.00	349.00	1724.00	2423.00	.....	.....	.....	.....	.....	.....	-39193.00	.....
Claims on Central Government (Net), % of total credit		75.34	33.55	42.53	92.26	55.28	24.27	.....	.....	.....	.....	.....	.....	207.04	.....
Claims on Official Entities, % of total credit		-1.37	51.32	19.46	4.87	22.45	49.77	.....	.....	.....	.....	.....	.....	-10.32	.....
Claims on Private Sector, % of total credit		26.48	14.47	38.46	2.29	22.39	25.92	.....	.....	.....	.....	.....	.....	-95.09	.....
Period averages (1981-86)															
Claims on Central Government (Net), % of total credit							53.87								
Claims on Official Entities, % of total credit							24.42								
Claims on Private Sector, % of total credit							21.67								

Zimbabwe															
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Domestic credit (millions of Zimbabwe Dollars)	1565.10	1807.70	2127.80	2584.70	3130.90	3645.90	4119.90	4963.40	4975.70	7325.40	8929.00	11595.90	14616.20	20452.90	24444.20
Changes in credit created		242.60	320.10	456.90	546.20	515.00	474.00	843.50	12.30	2349.70	1603.60	2666.90	3020.30	5836.70	3991.30
Claims on Central Government (Net), % of total credit		-37.43	109.68	2.08	61.17	-3.01	45.13	64.60	-168.29	21.99	25.67	0.55	33.61	38.01	24.84
Claims on Non.Pub.Enterprises, % of total credit		90.19	11.65	23.48	20.34	53.75	18.02	-19.54	273.98	7.42	-5.23	-5.50	-4.59	11.23	-3.96
Claims on Private Sector, % of total credit		47.24	-21.34	74.44	55.11	10.43	36.86	54.94	-5.69	70.58	79.56	104.95	70.98	50.76	79.12
Period averages (1981-86, 1987-94)															
Claims on Central Government (Net), % of total credit							29.60								5.12
Claims on Non.Pub.Enterprises, % of total credit							36.24								31.73
Claims on Private Sector, % of total credit							33.79								63.15

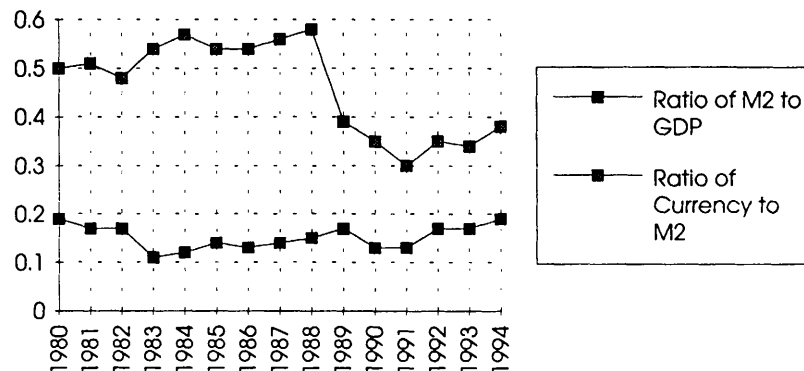
Source: IMF (1995).

Figure 1 Ratio of M2 to GDP, ratio of Currency to M2

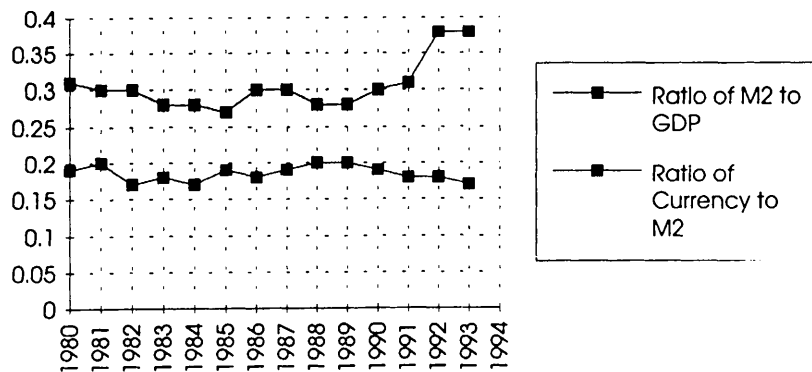
Cote d'Ivoire



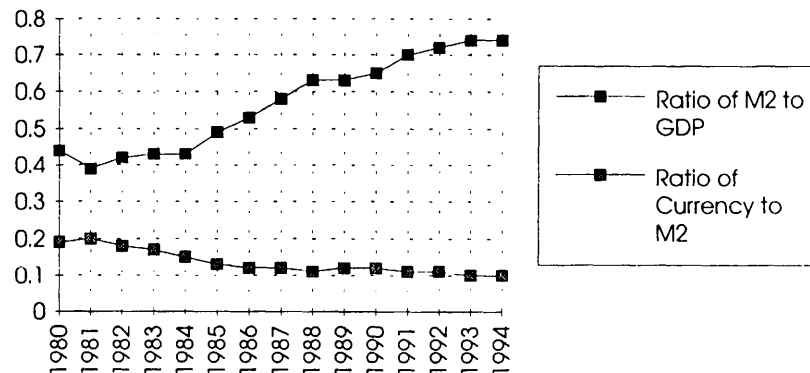
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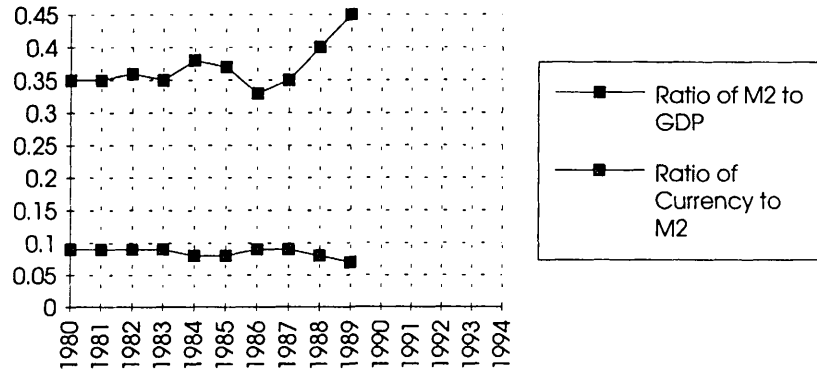
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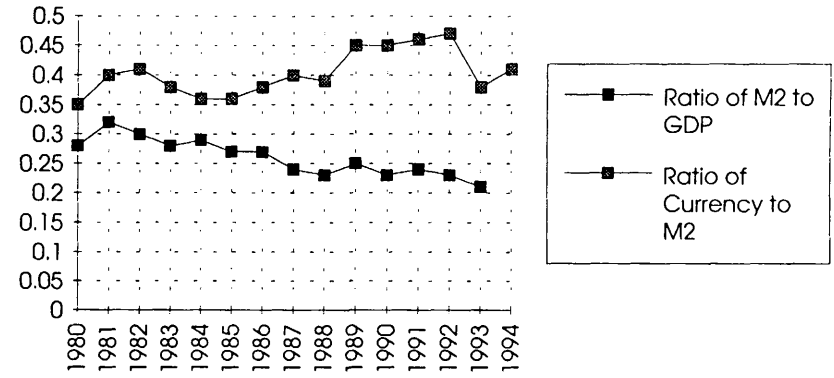
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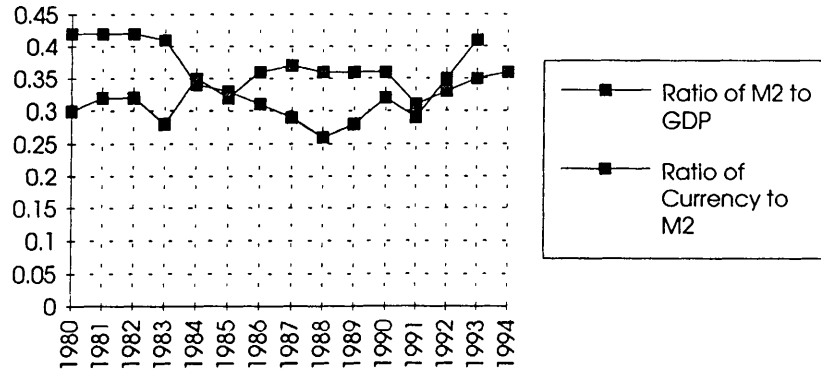
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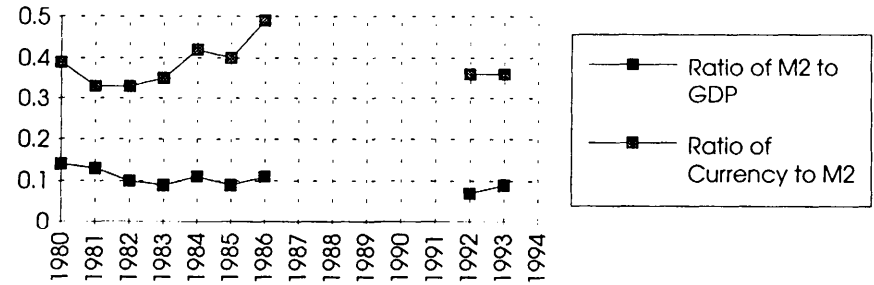
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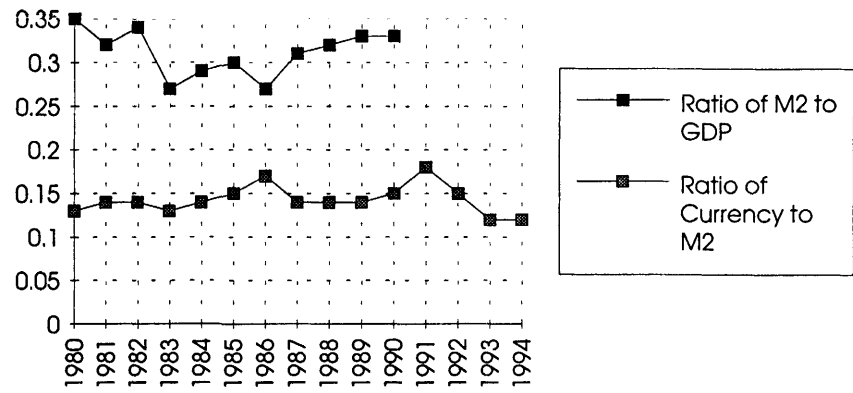
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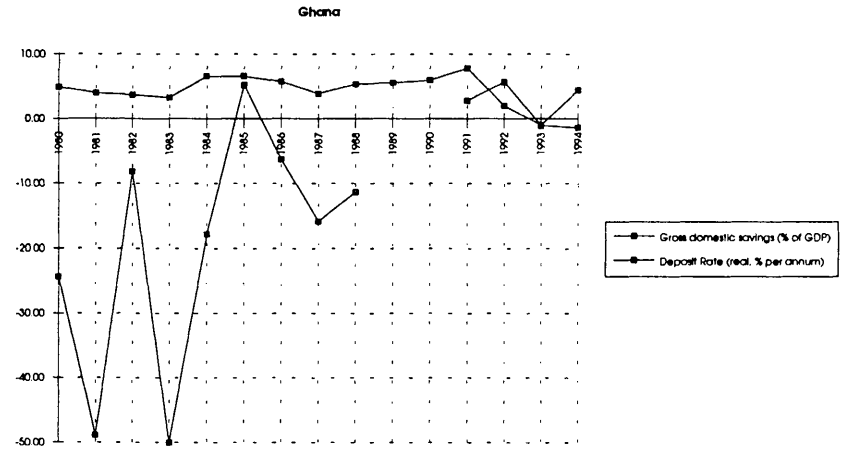
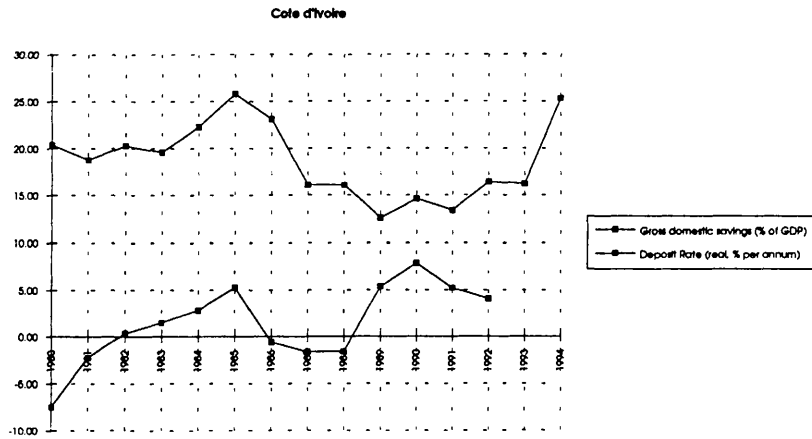


Zimbabwe



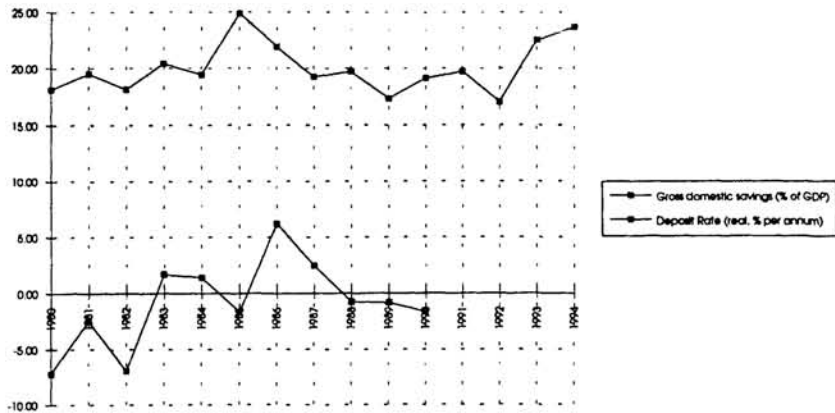
Source: IMF (1995) and World Bank (1996).

Figure 2 Behaviour of deposit (real) and domestic savings rate

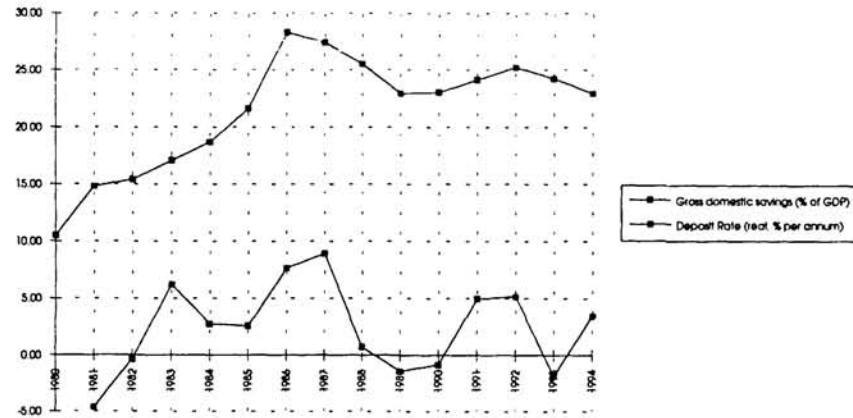


Source: IMF (1995) and World Bank (1996).

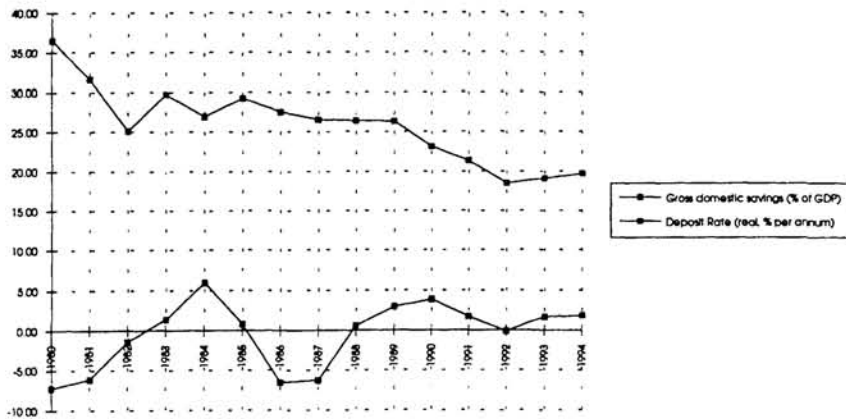
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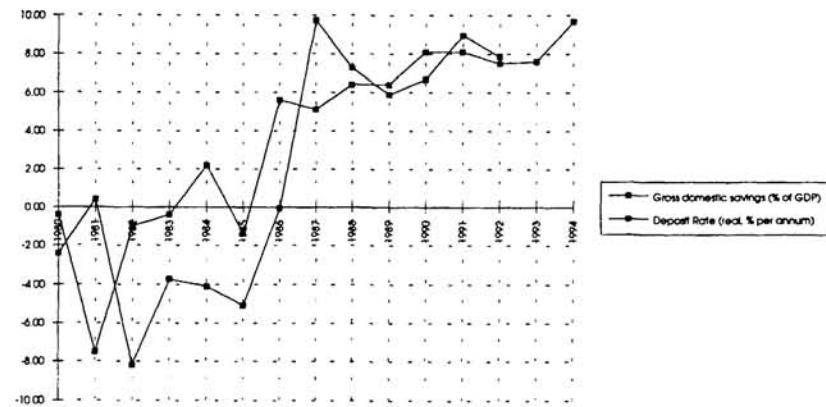
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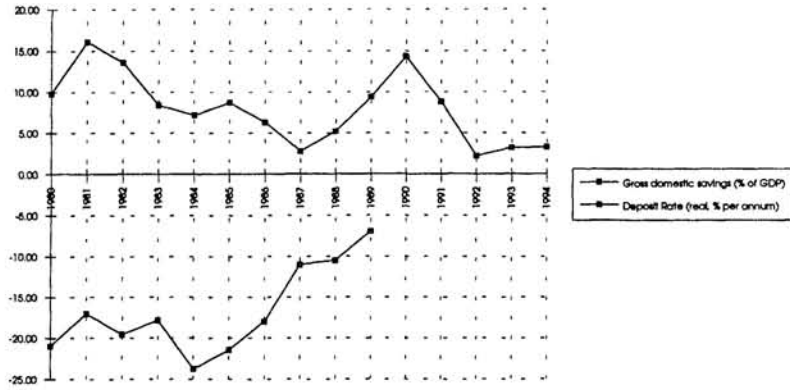
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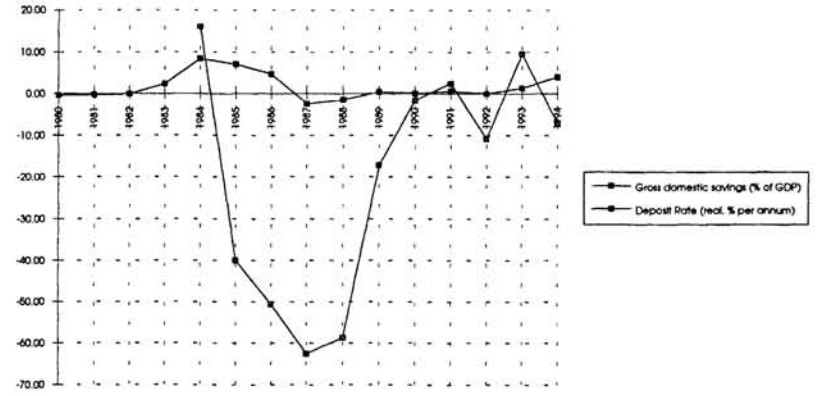
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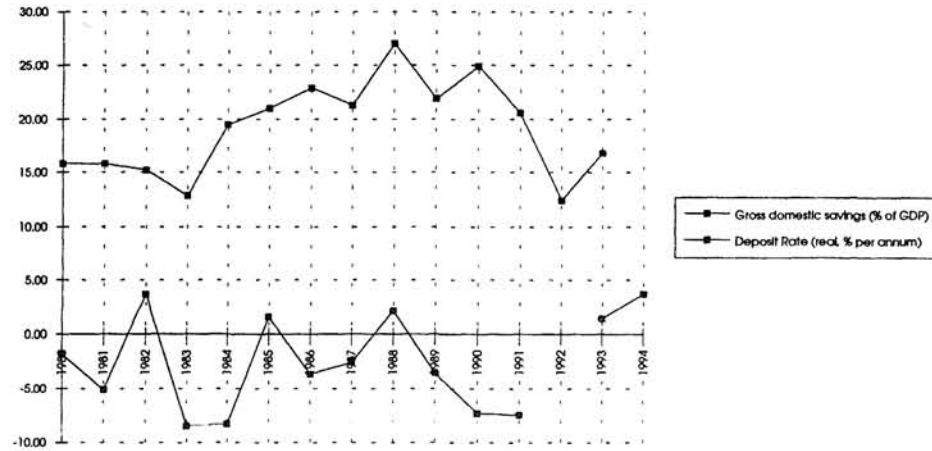
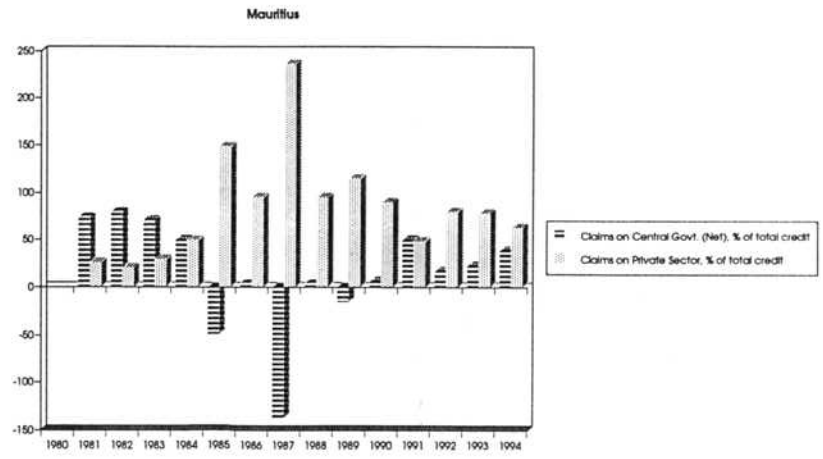
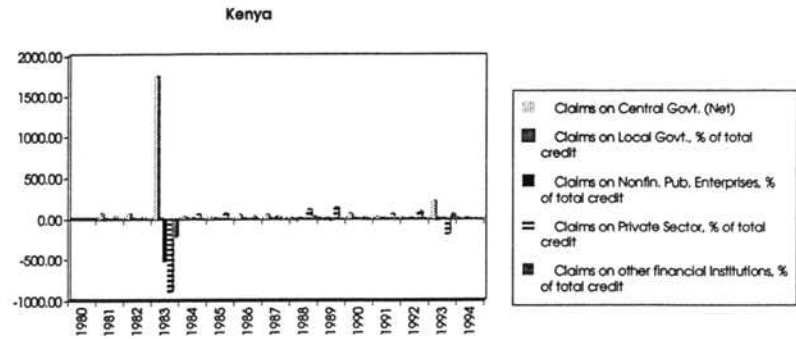
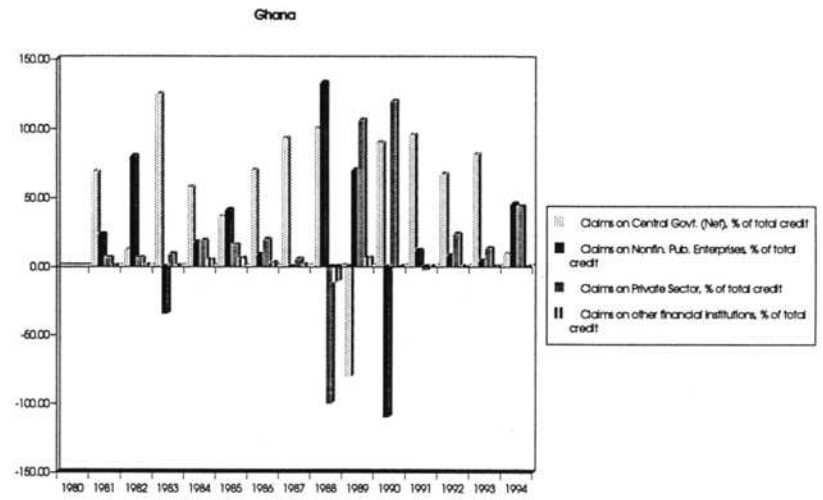
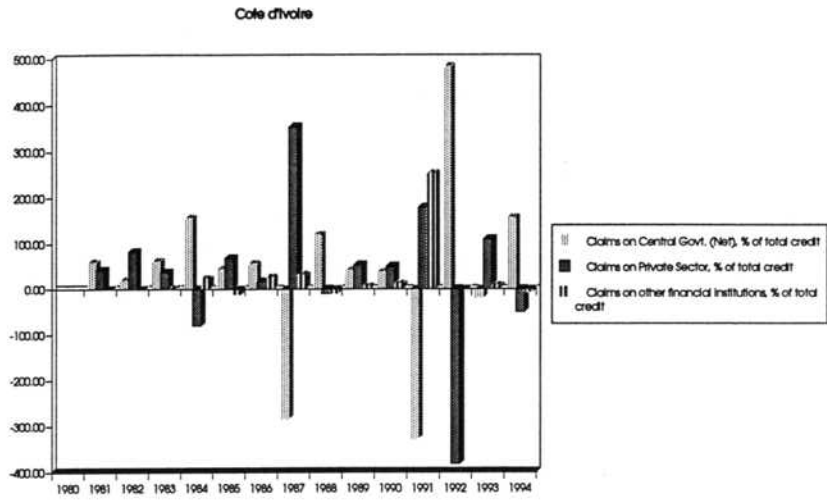
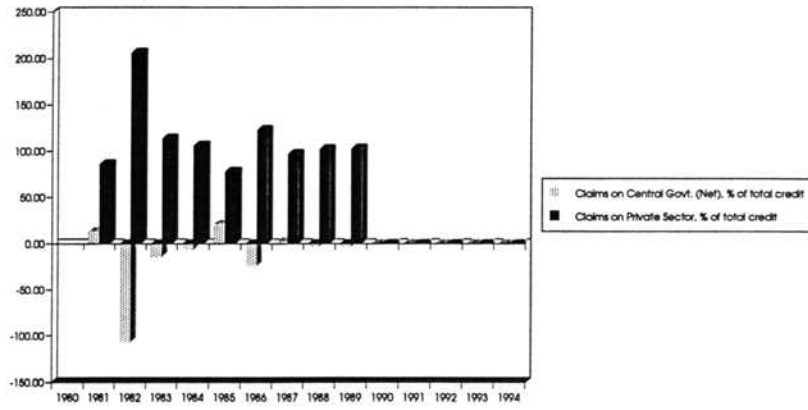


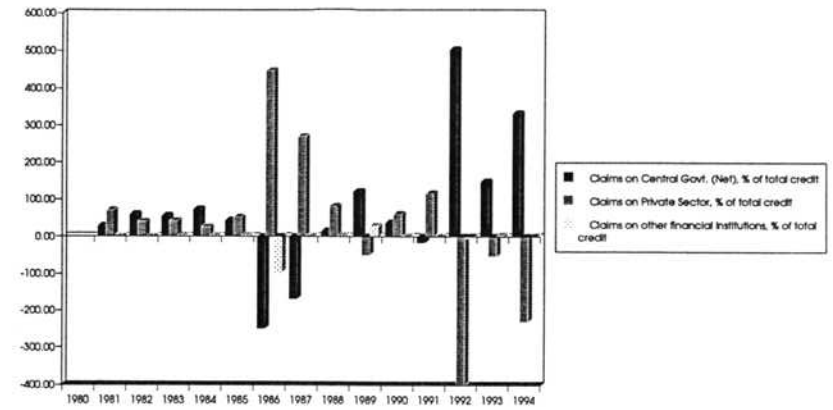
Figure 3 Changes in domestic credit allocation



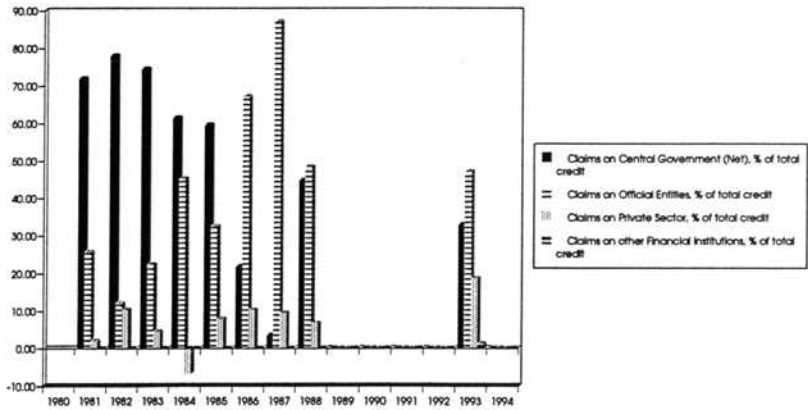
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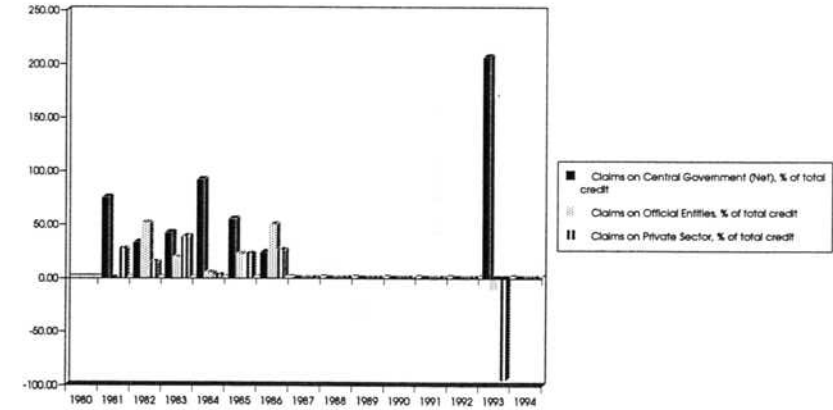
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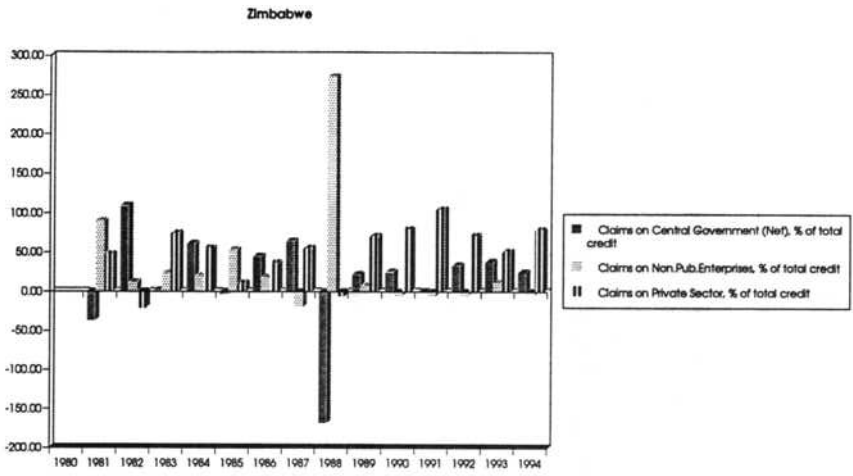


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Source: IMF (1995).

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