

Multiple factors hinder drop in interest rates

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The Executive Director of the Centre for Policy Analysis (CEPA), Dr Joe Abbey, says commercial banks have not reduced lending rates because of the high risk associated with lending.

There has been a steady decline in inflation over the past 12 months, described as the longest drop in the country's history to the current level of 9.52 per cent.

The Bank of Ghana (BoG) has responded accordingly by reducing the policy rate to 13.5 per cent.

But commercial banks have not acted in the same accord and maintained high lending rates ranging between 25 and 38 per cent, a situation Dr Abbey attributed to the high risk involved in lending to small and medium scale enterprises (SMEs).

The former Government Statistician and Governor of the Central Bank, Dr Abbey, also said the government's policy of keeping expenditure low had stifled cash inflows and led to the high interest rates being charged by commercial banks.

Figures released by the Ghana Statistical Service (GSS) show that as of May 2010, 18.7 per cent of loans given out by banks had not been serviced.

Dr Abbey also cited the failure of the government to pay contractors and discharge other payment obligations such as the servicing of the Tema Oil Refinery (TOR) debt to the Ghana Commercial Bank (GCB) as starving the banks of cash inflows, thus making it difficult for them to reduce their lending rates.

In the midst of all these, Dr Abbey cautioned that any attempt to force the banks to reduce their lending rates could lead to their collapse.

He made this point to the Daily Graphic following concerns raised by corporate Ghana about the banks' inability to reduce lending rates to reflect the fall in inflation and the policy rate.

President John Evans Atta Mills echoed that view when he met members of the Ghana Employers Association (GEA) at the Castle, Osu, last Tuesday and asked financial institutions to reduce their lending rates in response to the drop in inflation and the base rate to sustain the operations of the industrial and manufacturing sectors.

The President said since those sectors employed thousands of people and paid millions of cedis in taxes and duties to the government, a reduction in lending rates would strengthen the capacity of industries to maintain their current operations and absolve them from insolvency.

While acknowledging that the inflation rate was a big determinant of the base rate, Dr Abbey said political pressure must not be brought to bear on the banks to lower their lending rates.

He observed that there were too many loans and advances within the banking sector that had not been serviced and so, naturally, there would not be money available for them to lend.

He stressed the need to find ways of making SMEs transparent through proper book-keeping in order to inspire trust in the banks to lend them money.

He said it was imperative for all to honour their contractual obligations in respect of loans, adding that the nation should frown on people who borrowed money and failed to pay.

Dr Abbey said although the reduction in the inflation was good in terms of predicting macro-economic growth, the drop was largely due to the government's policy of cutting spending.

That, he said, made it difficult to the government to create more jobs for the youth.

Dr Abbey said although inflation was reducing, it was difficult for individuals to explain the drop in real terms, hence their claim that they could not feel it in their pockets.

As far as he is concerned, the nation was paying as high price for the reduction in inflation, which was measured, for instance, by the high rate of unemployment and diagnosed the challenge confronting the government as how to sustain the reduction in inflation.

Dr Abbey suggested that the nation should give priority to human capacity development and respect knowledge.

“When I leave the country, you say I've joined the brain drain, but when I stay in the country, you put my brain in a drain”, he remarked.

Source: Daily Graphic
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