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THE IMPLICATIONS OF

WTO AND GATS FOR THE

BANKING SECTOR IN AFRICA

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Abstract

In this paper we assess the implications of the World Trade Organisation (WTO) and the General Agreement on Trade in Services (GATS) for the banking sector in African countries that are signatories to the WTO and GATS protocols. With emphasis on the free trade element and the implications for full liberalisation of the banking sector, we first review the relevant provisions of the GATS for banking services and the main exemptions held by African countries. We then analyse the main efficiency indicators of a sample of the top banks in 18 African economies for the period 1997-1998. We also examine the pricing of banking services and use univariate statistics to analyse the dispersion of the key banking and liquidity indicators in these economies for the period 1994-1998. The results obtained from the above analyses imply that liberalization, implicit in the WTO and GATS protocols, will lead to a substantial shake-up of the African banking industry. However, the results also suggest that banks in most African countries have little to fear from liberalization at least in terms of the continuing existence of a locally owned banking industry, and indeed, could reasonably expect to be able to restructure and compete, at the very least in African-wide or regional markets.

1. Introduction

Singular among the main innovations of the World Trade Organisation (WTO) was that, unlike its predecessor the General Agreement on Tariff and Trade (GATT), it took a much broader view of trade, and in particular, introduced new and important issues to trade negotiations. The main new issues included trade-related intellectual property rights (TRIPS), trade-related investment measures (TRIMS), and the General Agreement on Trade in Services (GATS).[1] The provisions regarding trade in financial services, which are an integral element of the GATS, have proved to be a source of considerable anxiety for the non-industrialised countries generally. This concern arises, in part, because the consequences of the GATS are not well understood and there is a sense among these countries that they are being pressurised into signing-up for something which may yet turn out to be to their detriment. There is some literature on the potential effects of the GATS on developing countries (see, for example, Murinde and Ryan, 1999). However, the African countries, which are the subject of this paper, are somewhat special. African countries have concerns that differ considerably from the bulk of the emerging and developing nations (see Murinde, 1998). Most of the economies in Africa are heavily dependant on oil imports and are largely vulnerable to exogenous shocks from the rest of the world, as noted by Collier and Gunning (1999). A few of the countries which are oil exporting, such as Nigeria, are acutely aware of the exhaustibility of their primary source of wealth but are unfortunately neither seeking to diversify their economies at home nor building up a suitable portfolio of interests abroad as a safeguard against future diminishing oil revenues. In general, the African region is characterised by structural economic problems as well as challenges and opportunities.

There are many implications of the above for the financial sector, but we will identify just four here.[2] Firstly, most African economies have very rudimentary and fragile financial sectors (Murinde, 1998). It is thus a matter of concern to the

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1. Prior to the last set of trade negotiations under the GATT, the focus had been on the effect of tariffs, quotas and other non-tariff barriers on trade in goods. However, previous talks had assiduously eschewed some contentious areas where developed countries were at a comparative disadvantage vis-à-vis less developed countries, most notably textiles and agriculture. In return for concessions in these areas in the recent Uruguay Round, the developed nations urged the GATT to take a much broader view of trade, and in particular, added to the discussion issues such TRIPS, TRIMS and GATS.

2. On the broad implications of WTO, rather than GATS, for developing countries, see Klein (1998).

governments how the financial sector in these economies will respond to the increased competition brought about by the GATS. Moreover, the serious contagion effects from the recent Asian financial crisis have scared off some countries from embarking on the globalisation trail. Secondly, African countries also differ because their relative diverse colonial heritages, and the interests of transnational corporations (TNCs), have typically led to a significant, but sometimes restricted, foreign presence in these countries. Thirdly, most African economies are at the same stage of economic development and tend to produce similar goods and services. In order to diversify their economic base, these countries face the dilemma of linking their investment strategy to their trade regime; for example, investing in the key sectors like manufacturing and services or the current main sectors like agriculture and mining, or trying to export abroad versus investing in "newly engineered" home industries. Finally, these countries have a particularly strong desire to see their financial industry survive and prosper. However, one of the difficulties faced by African governments in choosing to diversify is to identify sectors that will yield sustainable economic growth. For this reason the financial sector, due to its appeal as a high skilled, high-income industry, is sometimes identified by these countries as a potential source of future economic activity. Hence, the effects of freer trade in financial services under the GATS have special significance for African economies.

This paper assesses the implications of the GATS for the banking sector in African countries, in the context of their membership benefits of the WTO as well as non-membership disadvantages. The idea is to review the relevant provisions of the GATS for banking services with emphasis on the free trade element and the implications for full liberalisation of the banking sector. While the discussion is largely framed in the context of the GATS we are aware that the ongoing regional integration efforts, such as COMESA, are in principle encouraging member countries to establish banks and non-bank financial institutions in each other's territories, although this has yet to be implemented. Nevertheless, much of what we have to say relates to liberalization policy and the regional initiative can then be seen to be consistent with the GATS.

The rest of this paper is structured into four sections. Section 2 briefly considers the pure theory of international trade as it applies to trade in financial services, and identifies in broad terms the expected winners from liberalising trade in this sector. The main provisions of the GATS as they apply to the financial sector and the main

exemptions currently enjoyed by the African states are considered in Section 3. Finally, Section 4 discusses the current state of the banking industry in Africa and considers the likely scenario (and the likely time-scale) as a consequence of the implementation of the GATS. Section 5 concludes.

2.   Trade in financial services in the context of the pure theory of international trade

A useful starting point is to note that the pressure for including financial services within the Uruguay round came predominantly from the developed countries, and in particular, from those who currently have a major presence in the international banking market. The explanation for the dominance of these particular countries in international banking differs in each case, but a recurring theme is the distortionary impact of historical banking regulations resulting in the development or an enhancement of a comparative advantage in the provision of financial services (see, for example, Murinde and Ryan, 1999).

The pure theory of international trade has been used to explain the trade regime bias of African countries (see Chanthunya and Murinde, 1998). In this context, it is instructive to briefly consider the traditional models of international trade, though, as we will see, they are not particularly helpful in explaining patterns of international trade in banking and financial services. For example, we might look at technology as a source of comparative advantage. It may well be the case that we can identify differences in the technology, or the method of production of financial services from one country to another, but there is nothing intrinsically fixed about this advantage. Thus, unlike food production or mineral or raw material based industries, there is nothing about the physical environment that necessarily suggest that one country may have a technological advantage on the basis of its physical geography or infrastructure. There may of course be differences such as population density which effect branching costs; or the cost and efficiency of telephone and other electronic communication systems, but there is no discernible pattern internationally which might suggest these factors are overwhelmingly important. Thus, if there is a difference in "technology" it is invariably due to differences in "ways of doing things". The question is how do such differences in the level of "know-how" arise and why are they not readily copied.

Explanations of international trade in terms of "factor intensity" lead us to a similar conclusion. In the case of trade in goods, we might readily accept that production might differ in relative capital and labour intensity from country to country. However, that is harder to discern in financial services. Capital infrastructure, in terms of branch networks etc., may be superficially important but financial capital is equally if not more important in the case of financial services. Overall capital requirements for banks and financial institutions did indeed differ in the past, and indeed low capital-asset requirements is often cited as one of the principal reasons for the rapid international expansion of Japanese banks in the 1980's and early 90's. However, this possible source of difference has systematically disappeared as a consequence of the Basle agreement on the global capital/asset requirements and the increasing role of the Bank of International Settlements. Thus, while relative capital abundance might still be an issue, once again differences in production methods do not depend on differences in factor intensity *per se*, but rather on differences in "ways of doing it" and the skills and know-how embodied in labour. Furthermore, the removal of barriers to capital flows particularly over the last two decades diminishes the issue of relative capital scarcity.

Thus, the main conventional explanations reduce to differences in know-how. In the case of financial services this difference in skills and knowledge is usually attributed in part to investment in human-capital, but even more importantly, to learning-by-doing (see Ryan, 1990; Barro, 1991).

One other major source of international trade is "economies of scale". However, while recent research is more supportive of returns to scale and scope, it is notoriously difficult to establish the microeconomic attributes in financial services. While empirical studies on economies of scale for banks have been conducted using US data, there is very little evidence on other industrial countries and none on African banks, to our knowledge.

Explanations of international trade based on differences in tastes do not look particularly fruitful either, since they require some element of production specialization to be relevant, and as we have already seen, there is no obvious conventional argument for this.

A final source of international trade is trade due to tax and regulatory distortions. For a huge variety of reasons this turns out to be vitally important in the context of financial services. We have already cited the case of Japanese international growth

allegedly subsidised by low capital/asset requirements. By contrast, the importance of American banks is often attributed to the restrictive regulatory regime they historically faced in the US. Thus, they had an incentive to develop their international operations as a means of circumventing domestic restrictions. However, it was the very absence of restrictive regulations and an appropriate supervisory regime that reinforced the strength of certain financial centres such as London, and which enabled it to attract US and other banks attempting to circumvent their own restrictive domestic requirements. Of course while comparative regulatory regimes may be important in explaining the performance of London as a centre this century, its growth was initially determined by its location at the centre of the British Empire. However, its early growth as a financial centre owes much to the fact that there were restrictions on commodity trade between colonies and third parties, forcing trade through the UK. Thus, restrictions, this time on trade in financial services, also provide part of the explanation as to why London became the focus for the finance of international trade between third parties.

The key, however, is not the restriction itself. For if that was the only element in the story then the removal of the restriction or regulatory distortion would return the world to a level playing field. More importantly, the distortion not only allows a country to gain an advantage today, but also to capitalise on the learning-by-doing element of banking and thus to increase its "know-how" and compound its comparative advantage. As emphasized by Krueger (1997) learning-by-doing is an important element of trade policy.

By these historical factors, therefore, the existing major players have developed, over many years, specific banking skills and expertise which is seen as the most important ingredient in the provision of banking services. The generalised implementation of the GATS in addition to the Basle agreement on capital ratios would have the effect of removing the distortionary regulations that led to the development of the comparative advantage in these countries. Thus, by eliminating distortionary regulatory factors, and the taxes and subsidies that encouraged and enabled existing market participants to acquire their specialist skills, the new agreement, when fully implemented, will remove the possibility of similar protection for new market entrants.

Thus, there is a general presumption that the GATS will largely enshrine historic comparative advantage and favour the existing market leaders at the expense of other countries with a less-developed presence in international financial markets. However, it

would be wrong to imagine that the gains from financial liberalization will accrue only to the suppliers of international financial services or indeed that domestic production will be wiped out.

First it should be emphasised that a more efficient financial-service sector is beneficial not just because it yields static private-consumption benefits (which are typically quite low), but also because these services are important as an allocative intermediate-input in production. Thus, an efficient financial-service sector is vital if a country is to enjoy the dynamic benefits of trade liberalization. Secondly, as we argue in more detail below, domestic presence is likely to remain an important form of supply for a considerable period yet. Thus, while liberalization might be expected to yield significant improvements, particularly in labour, process and managerial efficiency, the sector is unlikely to decline to the extent one would expect in the case of a goods sector at a similar comparative disadvantage. Thus, while theory might suggest that the current world leaders in international finance may have the most to gain (as suppliers), the implications for the retail banking, insurance and other financial services need to be qualified considerably at country level. Before we can do this, however, we need to review the main provisions of the GATS agreement for the financial sector and to consider the current state of the financial industry in African economies. It is to these issues we now turn.

3.   The main provisions of the GATS and trade liberalization

3.1   The main provisions

In its most general form, the liberalisation of financial trade[3] under the GATS envisages that signatory states will:

1. remove capital account restrictions to permit cross-border supply and consumption abroad[4];

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[3] Thus the agenda here is very specific compared to the broad "financial liberalisation" argument which typically refers to interest rates, exchange rates and bank reserve ratios (see Hermes, Lensink and Murinde, 1998, with respect to African economies).

4. In fact the agreement does not state this explicitly; however, there are some clauses in Article XI which essentially amount to this. However, footnote 8 in Article XVI appears to limit some of the obligations one would normally associate with these modes of supply. In particular it seems to relieve

2. grant "market access" to all, that is, give everyone the right to establish in or to freely service the national market; and

3. ensure "national treatment", that is, the authorities should seek to treat all banks, regardless of country of origin, on an equal basis, and make all banks subject to the same regulatory and tax regimes.

The GATS also envisages that signatories will take steps to ensure that the regulatory and supervisory regime conforms to best international practice, though these requirements need not be specified in the agreement.[5]

By contrast with the GATT, the GATS agreement in the Uruguay Round stopped short of requiring full reciprocity in access, opting instead for the less stringent market-access and national-treatment requirements. Full reciprocity would require that foreign financial institutions should be allowed the same degree of market access in the domestic market as permitted to domestic firms in foreign markets. This provision would have effectively forced countries to liberalise their financial markets to a common standard. However, the consensus proved so difficult in this sector that this traditional approach was abandoned.

Instead, the initial agreement on financial services, as set out in 1995, required developed countries to implement the GATS within a year, but allowed emerging and developing countries to take exemptions, initially for 5 years. From a practical viewpoint, the way these exemptions were established was very important. Instead of a general commitment to the agreement with exemptions claimed for non-conforming measures as in the GATT (a so called "negative" list), the GATS followed what is called a "hybrid" list. This required signatories to opt into specific sectors (and/or sub-sectors) and then to list a set of negative exemptions where appropriate. However, many countries dis-aggregated their sectors in such detail that their specific commitments amounted more to a positive list of "opt-ins" for a particular mode, rather than any kind of general commitment to freer rate in financial services. Furthermore many countries chose to be "unbound" in a particular sector, meaning that they were making no commitments, and then specified what they would nevertheless

obligations on signatories regarding the outflow of funds under cross-border-supply and commercial presence. Countries also have the right to impose restrictions in times of balance of payments crises and to take appropriate prudential and regulatory measures as they see fit.

allow. This further reinforced the perspective that the agreement was essentially a "positive" list of low-level commitments.

This bottom-up approach had the effect of making the agreement a piecemeal collection of opt-ins which broadly corresponded with the *status quo ante* for many countries. Thus, for the most part non-Eastern European emerging and developing countries only agreed to continue what they were already doing. Furthermore, and in contrast to the GATT, there was nothing in the agreement to stop them putting in place further restrictive measures[6]. As a consequence of this outcome, the original aspiration in the agreement for an early move to eliminate exemptions was clearly not feasible and overly optimistic. In practice, emerging and developing countries had little idea what liberalization entailed and felt they were being rushed into a commitment they did not understand. Thus, they had no clear vision of what the implications of the agreement might be, nor even what full compliance might entail, and privately at least, did not take the proposed time-schedule seriously. The subsequent financial crisis in the Far East has compounded this problem and many developing countries are now arguing that the effect of the GATS would be to leave them susceptible to a similar sort of crash (Murinde and Ryan, 1999).

[Table 1 about here]

As a consequence, the WTO appear to have conceded that progress will be slower than originally envisaged and Article XIX on Progressive Liberalization calls for a series of rounds to review exemptions be held at five yearly intervals. The article also contains a considerable number of escape clauses which may 'facilitate' countries seeking further delays.

Table 1 summarises the main initial commitments in services by sector, for all the African countries that are WTO members. The main observation we can make from Table 1 is that most African countries have signed up to WTO and the GATS protocols.

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5. Some countries have listed non-discriminatory exemptions (regarding licensing etc) in their schedules which are essentially regulatory in nature.

6. The GATT originally worked on the basis of a general commitment combined with a negative list of exemptions. This approach made the trade restrictions in place transparent and thus allowed the GATT to monitor any attempt to engage in further restrictive practices and formed the basis for future negotiations. While in theory a positive list and a negative list could be the same, in practice with a

It is also noted that most of these countries have not made substantial liberalization commitments in the Uruguay Round in terms of services, agriculture and industry. However, some of the policies were not directly relevant to most African countries; for example, the Uruguay Round schedules discourage subsidies in agriculture, African countries actually tax (and not subsidise) the agriculture sector. Commitments in the financial sector have been made by 33 percent of African countries, reflecting some reluctance by about 67 percent of the countries. In addition, given that the commitments will hold for the foreseeable future, some African countries have preferred not to lock themselves into non-negotiable commitments. Whether, by so doing, African countries have missed an opportunity to bind themselves to the international trading framework can only be judged in terms of whether or not the countries are losing access to international markets in the long run. As the economies develop, it will become very important to compete in the export market for financial services, light industrial goods and agriculture-based manufactured products. Future research should be able to measure the welfare effects and the general benefits that have accrued to two control groups of African countries; those that have undertaken greater commitment within the Uruguay Round vis-à-vis the group of countries that have abstained from any commitment.

3.2   The effects of liberalization in principle

But what are the likely effects, in principle, of liberalizing trade in banking services in compliance with the long term aspiration of the GATS both on the use and availability of funds in the region and on the banking sector within the countries themselves?

In studying the effects of liberalization there are two distinct concepts to keep in mind. The first is the effect of GATS on the flow of funds in and out of countries and the second is the effect on financial service provision. The former case relates to the issue of improved capital mobility while the latter addresses the issue of who does the intermediation between borrowers and lenders both inside and outside the country.

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positive list measures not made explicit are not transparent and there is essentially no means of preventing countries of implementing new restrictive measures.

3.2.1   GATS and the flow of funds

GATS requires the removal of capital account restrictions in order to facilitate cross-border supplies and consumption abroad (Srinivasan, 1999). Thus, in principle, by facilitating the international flow of capital, GATS ensures that investment flows internationally to those enterprises where it will be most productive in terms of risk and returns, in the new world trading regime. Thus, in theory, freer capital flows are an opportunity for producers to attract the new investment necessary for development, and an opportunity for domestic savers to invest in projects anywhere in the world (Bende-Nabende, 1999).

Some countries in Africa (for example, Ghana, Uganda and South Africa) have fairly liberal regimes regarding cross border supply and consumption abroad with no regulatory restrictions on capital flows. However, the absence of regulations limiting capital flows does not necessarily mean that the market is operating efficiently. The extent of capital flows in and out of a country depends to a large extent on the ease with which domestic residents can gain access to projects abroad and foreign investors in turn can gain access to domestic projects. In the case of domestic investors this means the ease of which they can enter the international capital market. For wealthy individuals this may be relatively easy but for the vast majority this depends on the financial intermediaries located in the domestic economy and is therefore predicated on their level of efficiency and/or biases. Similarly, in practice, local entrepreneurs are restricted in their access to funds by the extent to which foreign banks can locate in the domestic economy or by the exposure and efficiency of their local intermediary in operating in the international market.

Thus, despite lack of prohibitions on the flows of funds, distortions and lack of efficiency in the national markets in Africa may result in the misallocation of resources. We examine some measures of bank efficiency in Africa below but we will note here one important possible distortion. At present, national governments exert a significant influence over elements of the financial sector in some of these countries and their desire to promote local development may be leading to an inappropriate level of regional investment. As we observed before, a major preoccupation of the regional ruling institutions is the need to diversify their economic base. This could be by means of investing overseas but more commonly they are choosing to develop industries and

enterprises in their home economies. This is in spite of the fact that these industries frequently require large imported inputs. The countries argue that such development is less risky than similar investment abroad. An alternative strategy would be to invest in regional economies but there is a perception that such investment is fraught with political risk and war; for example, the ongoing conflict in the Democratic Republic of Congo and Burundi, involving Angola, Namibia, Rwanda, Uganda and Zimbabwe. Of course if the governments are really reflecting the tastes of the local population towards regional and political risk, and the population is well informed, then they will choose to invest their monies in a bank that reflects this investment strategy without the need for political interference. However, it remains to be seen whether a competitive local banking system whether domestic or foreign in ownership, would choose a similar level of domestic investment or whether it would opt to diversify more internationally either at a continental (African) or global level. In response to recent UNCTAD reports, some African countries argued that the significant level of inward investment was an indication that their own preference for domestic investment was appropriate; see UNCTAD (1995, 1999). Of course, appropriate diversification by foreign investors is neither evidence that domestic intermediaries are efficient nor a legitimate reason for biasing one's own investment towards the domestic economy.

3.2.2   GATS and the provision of banking services

The second dimension to the GATS relates to the domestic provision of financial services and the possibility that foreign banks can enter domestic markets to compete with domestic banks. There are a number of ways this might happen. Banks may:

1. provide an arms-length service directly to customers across borders without any domestic presence;

2. invest directly establishing a new financial firm within a country;

3. purchase an existing financial services provider; or

4. enter into a partnership with an established domestic bank.

In the arms-length scenario a foreign-based bank could by-pass domestic banks and collect funds directly from domestic savers, provide them with payments instruments (credit cards and even cheques), and arrange loans using telephone and computer

11

technology. In principle, all banking services could be provided in this manner, though in practice, consumers expect to have some direct contact, however occasional, with their financial service provider.

The other scenarios all envisage a direct presence in the domestic economy. All these scenarios are similar to foreign direct investment in industry, in that the foreign bank directly invests money in the domestic economy. However, unlike other sectors, investment in substantial tangible assets such as plant and machinery are not necessary to conduct business, and even their property requirements may be quite limited. Furthermore, in principle, the labour requirements of such an operation might be quite modest, limited, in the extreme, to a handful of expatriate specialist advisors who provide the occasional contact alluded to above. At the other end of the spectrum, an incoming bank may establish or purchase an entire branch network and all its associated electronic payments systems etc.

Below we consider the evidence relating to the level of efficiency of African-based banks but given the presumption of comparative advantage of the major existing players, there is a theoretical possibility that a market could be completely dominated by low-cost foreign banks either providing cross-border financial services directly or with only a minimal domestic presence. There are two factors which tend to militate against this. In order to meet local demand for finance by domestic trading enterprises, banks will continue to maintain a sizeable staff with local knowledge to vet and monitor loans. Furthermore, despite the advances in arms-length banking via telephone and computer, there is still a demand for personal contact with financial service providers. Indeed, deposit collection (traditionally the most costly element of banking services) is likely to remain branch intensive for some time to come. Taken together, these factors imply that the scenario whereby the market is serviced at arms length by foreign banks is unlikely to develop in the foreseeable future.

The second piece of evidence relating to domestic versus foreign provision relates to the developments in Europe in the wake of the Single European Market exercise, an initiative which most closely resembles the effects of implementing the GATS agreement in full. Prior to the implementation of the single market, measures of efficiency suggested widespread differences across member countries even after making adjustments for differences in levels and types of services (see Ryan, 1992). There was also considerable evidence of differences in levels of efficiency within

countries. The European Single Market, like GATS was designed to ensure that banks would have reciprocal rights of entry into domestic markets at no less favourable terms than domestic providers (the so called Most Favoured Nation Treatment provision). Given the pre-liberalisation measures of efficiency there might have been a presumption of significant market entry by the more efficient providers, mainly in Belgium, Germany and to a lesser extent the UK and the Netherlands.

Significantly, this is not what happened. The advent of the single market provided an impetus for significant labour shedding and internal bank reorganisation in the less efficient markets, rather than widespread take-overs or new entrants. There have been some evidence of joint ventures and buy-ins but interestingly, the level of intra-EU mergers and acquisitions have not been significantly greater than those with banks from outside the EU. Indeed, the level of activity between EU countries is probably less than the level within countries, where smaller banks have frequently merged to compete more effectively with their larger competitors in terms of regional coverage and product range. Murinde, Agung and Mullineux (2000) suggest that levels of efficiency within the EU have converged in the wake of the 1992 Single Market, but the impetus for rationalisation and efficiency gains was due as much to the *threat* of mergers, acquisitions and new competition as it did to actual outside entrants.

4. Banking systems in African economies and their efficiency

4.1 Overview

The standard measure of comparative advantage is usually the pre-liberalisation prices prevailing in a country. While this measure can be an indicator of comparative advantage, this is not always certain. This is particularly true in financial services where different regulations across countries can distort the true underlying prices of financial services. In the case of banking, the prices in question are such indicators as interest rate and foreign exchange margins, as well as charges for specific services, letters of credit etc. For this matter, we discuss the structure of the African banking system in the context of the provisions of GATS, and then proceed to evaluate the efficiency of the sector in each of the sample African economies.

4.2   The structure of African banking systems in the context of the GATS

The banking systems of African economies exhibit individual peculiarities in terms of their structure, regulation, performance and implications for the GATS. In most of the economies, the banking sector is still emerging; it consists of commercial banks, savings banks, and Post Office savings banks. The regulatory framework is provided by central banks; these institutions oversee the regulation and supervision of the banking sector. It is useful to recall that most central banks in Africa inherited a colonial model of a central bank. Rather than evolving, the central banks were instituted to replace currency boards; for example the central banks of Kenya, Tanzania and Uganda were instituted to replace the East African Currency Board. There is considerable political interference in bank regulation in most African economies.

Although a good number of COMESA member countries are also members of WTO, as yet some of these countries are not members although some have their application for accession pending. However, the path to accession is not a smooth one and there is considerable controversy concerning what these countries see as excessive demands from the WTO regarding compliance (for example, Zimbabwe). Notwithstanding these difficulties, the countries are likely to accede in the near future with a set of exemptions similar to those enjoyed by other African countries. In this context, the liberalisation of the banking sector in African economies, in conformity with the GATS, will inevitably involve management of change at the central banks.

Commercial banks of international standing, in terms of capital strength and asset size, are only reported for Burundi, Cameroon, Cote d'Ivoire, Mauritius, Ethiopia, Ghana, Kenya, Malawi, Mozambique, Nigeria, South Africa, Zambia and Zimbabwe. Commercial banks in the rest of the African countries are too small by international standards. Moreover, some countries have experienced a high degree of bank failure, especially following the Asian financial crisis; for example, Uganda. In terms of asset size of the main banks, the banking sector in South Africa and Nigeria is by far greater than the banks in the rest of the African economies put together. In addition, hardly any of the African countries, except Mauritius and South Africa, operates as an international banking centre through the offshore banking market. In terms of the GATS provisions, Mauritius offers what is arguably the most open banking sector in

Africa and the COMESA region, primarily because the financial system is based on offshore business.

4.3   The efficiency of the banking sector and the current state of competitiveness

We have assessed the efficiency of the main banks in each of the sample African economies, using some standard indicators, namely asset quality, capital strength, the return on equity and liquidity. The results are reported in Table 2 for the main banks in each sample country.

[Table 2 about here]

Some of the banks reported in Table 2 compare favourably with those in other developing countries in terms of efficiency, although their capital adequacy ratios fall short of the ratings scored by the main banks in the OECD countries. The banks in South Africa, Zimbabwe and Malawi seem to be the most profitable in the sample of African banks in terms of return on capital and return on assets.

In general, however, the results suggest that the commercial banking sector in Africa is not doing very well. The percentage change in the capital strength of the banks indicates that some of the top banks in the sample countries have experienced zero growth, or, in some cases, negative growth (contraction); for example, Cameroon, Congo (D.R.), Kenya and Mauritius. In some countries, the top banks have contracted in size, in terms of the percentage change in assets; for example, the State Bank of Mauritius. In terms of soundness, proxied by the capital to assets ratio, some top banks display weak performance; for example Zimbabwe, Zambia, Kenya, Burundi, Cameroon and Ethiopia. In addition, it is important to bear in mind that lurking in the shadow of the top banks reported in Table 2 are some small banks with very weak performance. However, as indicated in the existing literature, published performance ratios do not take into account the subsidy element (see Murinde and Kariisa, 1997).

Nevertheless, the most striking feature of the data on financial ratios is the wide differentials in levels of efficiency both within and across African countries. This observation suggests that, as a whole, the sector is not sufficiently competitive at present. The challenge is that in order to facilitate growth of the banking sector, local

banks, especially the top banks, will have to restructure to compete with foreign multinational banks operating in Africa. Thus, increased market access, whether within the context of the liberalization of financial services within African economies or the GATS, is likely to have a significant impact on efficiency levels.

However, some African countries, in the context of the Schedule of Specific Commitments and the List of Article II (MFN) Exemptions, have effectively placed restrictions on market access. Some countries have tried to justify such exemptions by arguing that they are "a small country and already saturated" (see Krugman, 1997). However, the notion that the market, with free entry and exit, is saturated is one which economists have difficulty comprehending. If the market truly was saturated, then prices for services and profits would be such that there would be no incentive for new domestic or foreign firms to enter it. Firms will only seek to enter if they believe that they can provide a better service at a lower price and, given a lower cost of service provision, generate enough profits to warrant the investment. Thus, if the market really was over-supplied, such opportunities would not exist and restrictions on entry would be unnecessary.

While less efficient bank operators in African countries are understandably fearful of increased competition, the European experience suggests that this fear is somewhat exaggerated. Within the context of the EU Single market, the threat of liberalisation was the spur for many banks to improve their efficiency levels by way of labour shedding, reorganisation, improved technology and staff-skills up-grading. Indeed, ex post, we now know that pre-integration forecasts of implied labour shedding produced in 1991 (based on simulation models using late 1980's data), not only matched the actual outcomes almost perfectly, but also that the implied changes had largely been implemented by the time the barriers to entry were removed in 1992 (see Ryan, 1992). There was also a degree of acquisitions and mergers within countries to rationalise and improve the distribution of branch networks and to avail of some of economies of operations (Murinde, Agung and Mullineux, 2000). Thus, the lesson would appear to be that, when faced with credible deadlines for competition, efficiency levels of existing operators rose and foreign entry was therefore relatively insignificant.

Another popular contention among policy-makers and the trade press is that there is a need to increase minimum capital requirements (aside from the Basle requirements) to encourage larger banks and improved asset quality and scale efficiency. While there

has been a general presumption that increasing returns to scale in banking exist, statistical research on the economies of scale hypothesis is rather mixed. More recent research on the EU single market suggests that there may be scale economies in the wholesale end of the market (off-balance sheet activity, full management, investment services and large corporate loans), particularly with respect to smaller banks (see Gardener and Molyneux, 1997). We note that while the measures of efficiency in the banking sector cited in Table 2 show considerable variation, this does not appear to be correlated with bank size.

Overall, we conclude that increased competition as a consequence of implementing the GATS ought to remove the variations in efficiency (in line with the EU single-market evidence) and encourage mergers or take-overs where commercial pressures deem it appropriate. Nevertheless those banks currently identified as efficient have little to fear from market liberalisation, and indeed, could reasonably expect to be able to expand and compete, at the very least in African-wide or regional markets.

4.4   *Commercial bank pricing policy*

Interest rates are an important indicator of the banking sector as they represent the pricing decisions for commercial banking operations. Table 3 reports data on nominal and real deposit rates as well as nominal and real loan rates in a sample of African economies during 1994-1998. The real rates are calculated using published inflation data. Inspection of the time paths for the nominal loan rate, real loan rate, nominal deposit rate and real deposit rate suggests that for almost all the sample countries there is evidence of financial repression, indicated by the presence of negative real interest rates.   In some countries, notably Nigeria, Sierra Leone and Tanzania, financial repression is indicated for the entire sample period 1994-1998. This evidence implies some serious regulatory constraints on bank operations. The rest of the sample economies exhibit temporary financial repression: for example, Botswana, Cameroon, Central African Republic, Gabon and Swaziland for 1994 and 1995; Kenya and Namibia for 1994 only; Uganda for 1995 only; Zimbabwe for 1998 only; and Zambia and Malawi for 1997 only.   These economies therefore still fall short of the required financial liberalization, implicit in the GATS protocols, and in order to introduce competition and efficient bank operations.

17

In addition, the pricing of bank operations in the sample African economies is reported in Table 3 in terms of the difference between the nominal loan rate and the nominal deposit rate, or the spread. It is useful to note that there are high spreads (in nominal as well as real terms) in the banking market in most of the sample African countries, in particular Cameroon, Central African Republic, Gabon, Kenya, Sierra Leone and Tanzania. High spreads directly translate into high profits for the banks to the extent of the number of deposit and loan accounts held. These spreads are consistent with the lack of competition in the banking sector.

Univariate statistics for the key banking and liquidity indicators of the sample African economies are reported in Table 4, based on the data reported in Appendix Table A1.

We capture indicators of the role of the central bank in terms of foreign assets, reserve money and foreign liabilities given that the central bank, as the banker to the government, is charged with monetary policy (including stability of the value of the currency) and is also the lender of last resort for the banking sector. We also present the main liquidity indicators for the banking sector in terms of domestic credit, money supply as well as deposit values (demand as well as time and saving deposits).

The statistics in Table 4 shows that there is a high rate of liquidity in the African banking market suggesting that these funds are mainly available for investment in the local market. However, there is also evidence of high standard deviations and non-normality in terms of skewness and kurtosis, suggesting that the level of liquidity is very variable over time. In general, the evidence on the liquidity of the banking sector is indicative of a bias towards domestic lending, at the expense of an appropriately diversified international portfolio. We discussed why such a bias might exist earlier even where there was little or no restriction on the movement on capital. However, we should emphasise that this bias might be in addition to (or a severe example of) the 'normal' bias associated with the Feldstein-Horioka puzzle that is commonly observed even in developed industrial economies.[7] This sub-optimality of investment

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7. The Feldstein-Horioka puzzle seeks to explain why a country's savings and investment rates are highly correlated.

18

diversification may be a concern for any country subject to cyclical shocks. International evidence suggests that the degree of diversification of lending portfolios is greater, not only where there is freer capital mobility but also where the domestic financial sector is more competitive and where there is a liberal market-access regime leading to an increased international focus. Overall, Table 4 suggests that in the absence of more competition and international exposure, African banks are not making the best use of their available funds.

In this context the GATS offers several opportunities for African economies. First, by increasing market access, or even by simply creating the possibility of market access to foreign banks, there is likely to be an increase in the competitiveness of the domestic market and a reduction in the spreads reported in Table 3.

Secondly, GATS is likely to result in further internationalisation of the African banking market (both by domestic and foreign banks), leading to better identification of both foreign investment opportunities and improved portfolio allocation. The likely effects are that the absolute level of savings and deposit rates will rise, but the effects on borrowing interest rates and investment is ambiguous. It may be the case that domestic investment may fall and foreign investment may rise but this will be determined by the market and represent the correct balance between domestic and foreign investment in accordance with the optimal diversification and growth strategy by African countries.

Thirdly, and perhaps most importantly from the perspective of the African banking market, by liberalising and internationalising world financial markets, the GATS will increase the Africa's investment opportunities and facilitate its optimal diversification and growth strategy in the light of current primary exports bias. Given the existing level of distortions internationally, it is difficult to predict the effect of world liberalisation on world deposit and lending interest rates generally. However, as a high net-lender and in line with the observation that they are very liquid and have low deposit rates, African countries are likely to enjoy a higher return on their deposits in the new liberalised environment. The effect on borrowing rates is ambiguous.

5.   Conclusion

The indicators on efficiency levels and liquidity cited above suggest that liberalization, implicit in the WTO and GATS protocols, will lead to a large shake-up of the African banking industry. However, the analysis suggests that banks in most African countries have little to fear from liberalization at least in terms of the continuing existence of a locally owned banking industry. Indeed, one might even argue that the disciplinary benefits of the market are more likely to benefit the owners at the expense of labour generally, and low- skilled local workers in particular. However, while the interests of the bank owners may be important in the minds of some African governments, that is not really the key issue. From the perspective of these governments, it should be the nature of the employment that these banks will provide which is the more strategic issue.

The evidence from the European Single market experiment is that a firm target date for the removal of restrictions relating to commercial presence will result in a rapid improvement in efficiency measures in advance of the deadline. This has to be tempered with the evidence on the length of time required to develop the knowledge associated with learning-by-doing. Even if transfer payment policy were to be immediately revised (which is politically most unlikely) the appropriate learning-by-doing time scale is unlikely to be less than five years and more realistically ten. However, it is not clear that this window of opportunity exists. The sooner competitor economies respond to the prospect of the GATS the lower the probability that the African banking industry can develop sufficiently quickly in line with government aspirations before the pressure from of the WTO for full liberalization becomes overwhelming. In this regard, the move towards a regional free trade area in financial services seems to be a sensible step, just along the path currently being paved by COMESA.[8]

Further problems within the sector are caused by the current prevalence of corruption and a lack of transparency, which has culminated in large-scale bank failure in some countries, notably Uganda and Nigeria. There has been a recent trend towards

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[8] COMESA is treated here as a free trade area. See Panagariya (2000) for a review of the literature on preferential trade liberalisation.

providing appropriate accounts certified by qualified accountants but African countries still lag behind developed country standards in this regard. The absence of a series of certified accounts limits the ability of banks to assess returns and risks on new projects with respect to specific firms and whole sectors of the economy. Hence, lending decisions tends to be dominated by the reputation of the borrower and new entrepreneurs find it difficult to get start-up financing.

Increasing competition, especially from new foreign entrants, is likely to put further pressure on older style lending policies, leading to more widespread use of auditing and accounting procedures and greater transparency.

Finally, one important impediment to trade in financial services, which needs to be addressed, is the provision of a comprehensive and transparent judicial superstructure for handling disputes, in particular bad loans and bankruptcy. For example, there is a belief that courts in some jurisdictions are unwilling to file against "influential nationals" in dispute with foreign banks and there have been instances where central banks have prevented the effective award of damages by limiting foreign exchange transactions. While there are few restrictions on capital flows in the region generally, if African countries are to emerge as international banking players, the judicial superstructure needs to pay attention to corruption and other white-collar crimes involving banks.

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Table 1
Summary of Initial WTO Commitments by African Countries in the Services Sector

Country	Gross Com	1 Bus	2 Com	3 Cons	4 Distr	5 Educ	6 Envir	7 Fin	8 Health	9 Tour	10 Recr	11 Trans	12 Other	MFN Exemp
Angola	2							X		X				X
Benin	3							X		X		X		X
Botswana	3	X	X							X				
Burkina Faso	1									X				
Burundi	5													
Cameroon	2	X								X				X
C. A. R.	5	X	X				X			X	X			
Chad	1									X				
Congo	2									X	X			X
Cote d'Ivoire	4	X		X						X		X		X
Dijbouti	3		X							X	X			
Gabon	4	X		X				X		X				
Gambia	12	X	X	X	X	X	X	X	X	X	X	X	X	
Ghana	5			X		X		X		X		X		X
Guinea	5	X					X		X	X		X		
Guinea Bissau	2									X	X			
Kenya	5		X					X		X		X	X	
Lesotho	10	X	X	X	X	X	X	X		X		X	X	
Madagascar	1	X												
Malawi	5	X		X					X	X	X			
Mali	2					X				X				X
Mauritania	2									X				
Mauritius	1		X							X				X
Mozambique	1							X						
Namibia	2	X								X				
Niger	2									X		X		X
Nigeria	4		X						X		X		X	
Rwanda	5	X				X	X			X	X			

Table 1 (Concluded)

Country	Gross Com	1 Business	2 Commun	3 Constr	4 Distrib	5 Educat	6 Environ	7 Financ	8 Health	9 Tour	10 Recr	11 Trans	12 Other	MFN Exemp
Senegal	6	X	X		X					X	X	X		X
Sierra Leone	10	X	X	X		X	X	X	X	X	X	X		X
South Africa	9	X	X	X	X		X	X		X		X	X	X
Swaziland	2	X							X					
Tanzania	1									X				
Togo	3		X							X	X			
Uganda	1									X				
Zaire	6	X	X	X		X				X	X			
Zambia	4	X		X					X	X				
Zimbabwe	3		X					X		X				
Sectoral Total		19	14	11	5	7	7	12	7	35	11	12	4	12

Sources: Based on Sorsa (1996; p.299-300), Table 2; and Chanthunya and Murinde (1998, pp. 227-8), Table 7.2.
Notes: Gross Com = Total Commitment; Bus = Business; Com = Communication; Cons = Construction; Distr = Distribution; Educ = Education; Envir=Environment; Fin = Finance; Tour = Tourism; Recr = Reconstruction; Trans = Transport; MFN Exem = Manufacturing exemption; C.A.R. = Central African Republic.

Table 2

Efficiency indicators for the banking sector in African economies

Top bank(s) in each country	Strength $m(%Δ)	Size $m(%Δ)	CAR %	Profit $m	ROC %	ROA %	BIS %	NPL %
Burundi								
Banque de Credit de Bujumbura	4(45.0)	45(7.8)	12.1	1	27.4	2.80	na	11.2
Cameroon								
Credit Foncier du Cameroon	15(-5.0)	150(1.2)	9.8	1	4.9	0.49	81.29	na
Cote d'Ivoire								
Societe Generale de Banqus Cote d'Ivoire	55(31.4)	798(13.8)	6.86	6	12.3	0.74	na	na
D.R. Congo								
Banque Commerciale du Congo	25(0.0)	99(64.3)	24.8	5	20.3	5.04	na	na
Ethiopia								
Commercial Bank of Ethiopia	130(17)	2287(9.7)	5.68	89	94.3	3.91	na	Na
Ghana								
Ghana Commercial Bank	49(16.2)	433(22.5)	11.3	21	46.6	4.91	9.98	16.6
Kenya								
Kenya Commercial Bank	159(0.5)	1268(6.7)	12.6	23	14.3	1.79	11.8	17.7
National Bank of Kenya	39(6.0)	496(27.2)	7.9	10	27.3	2.09	14.28	14.6

Table 2
(Continued)

CFC Bank	27(18.3)	112(2.7)	24.6	7	27.2	6.16	28.49	13.0
Diamond Trust of Kenya	23(-9.2)	163(4.5)	14.2	-2	-9.6	-1.43	na	Na
Co-operative Bank of Kenya	22(-10)	348(9.2)	6.4	0	1.5	0.10	17.72	15.0
Commercial Bank of Africa	16(13.5)	195(29.8)	8.3	9	59.7	4.66	22.7	6.6
Trust Bank	13(24.4)	273(19.7)	4.9	1	7.5	0.33	na	na
Consolidated Bank of Kenya	11(3.9)	33(2.7)	35.3	0	2.5	0.85	na	na
Delphis bank	8(132.5)	68(33.6)	11.1	0	7.9	0.6	na	47.0
Madagascar								
Banque Malgache de l'Ocean Indien	23(13.7)	170(18.1)	13.3	9	43.1	5.37	na	na
BNI-Credit Lyonnais Madagascar	13(10.4)	242(10.2)	5.2	10	81.3	4.05	na	na
Malawi								
National Bank of Malawi	13(28.7)	140(64.0)	9.28	14	123.6	10.19	17.75	na
Commercial Bank of Malawi	12(12.1)	146(9.1)	8.37	8	69.7	5.52	na	na
Mauritius								
Mauritius Commercial Bank	149(4.7)	2389(16)	6.22	40	27.8	1.69	13.05	na
State Bank of Mauritius	121(-13)	1075(-5)	11.3	32	24.6	2.98	24.96	5.69

Table 2
(Continued)

Top bank(s) in each country	Strength $m(%\Delta)$	Size $m(%\Delta)$	CAR %	Profit $m	ROC %	ROA %	BIS %	NPL %
Mozambique								
Banco Standard Totta de Mocambique	24(12.4)	167(21.8)	14.1	4	16.7	2.23	12.98	na
Banco Internacional de Mocambique	20(34.0)	153(58.0)	13.2	21	13.1	1.51	20.79	na
Nigeria								
Union Bank of Nigeria	277(84)	5007(23)	5.5	106	49.6	2.12	18.30	31.4
United Bank for Africa	243(-2)	3140(25)	7.7	17	6.7	0.53	13.28	13.0
South Africa								
Stanbic	2151(23)	27307(9)	7.9	415	21.3	1.52	11.2	Na
ABSA Group	1648(21)	27038(10)	6.1	440	29.3	1.63	10.4	4.3
Nedcor	1339(19)	19900(20)	6.7	505	41.0	2.54	10.8	Na
BOE Bank Holdings	1103(45)	6919(19)	15.9	305	32.7	4.41	Na	Na
First Rand Banking Group	950(-17)	23337(12)	4.07	417	39.8	1.79	10.5	4.75
Investec Group	789(1.3)	18242(36)	4.33	193	24.6	1.06	15.2	Na

28

Table 2
(Concluded)

Mercantile Lisbon Bank Holdings	145(174)	676(48.2)	21.4	19	18.9	2.76	na	na
Saambou Bank	94(50.5)	1873(15)	5.04	24	30.9	1.29	15.12	Na
Zambia								
Zambia Commercial Bank	10(30.2)	158(44.3)	6.1	3	31.4	1.68	13.65	43.4
Barclays Bank of Zambia	9(2.5)	125(32.4)	7.3	1	6.8	0.49	10.91	7.50
Standard Chartered Bank Zambia	6(na)	105(na)	5.8	8	na	7.46	11.96	na
Zimbabwe								
Barclays Bank of Zimbabwe	23(51.0)	347(26.4)	6.54	24	127.4	6.92	12.50	9.15
Zimbabwe Financial Holdings	22(32.5)	343(95.7)	6.31	5	25.0	1.38	11.50	Na
FMB Holdings	15(25.3)	292(77.4)	5.23	6	46.5	2.19	17.20	Na
Merchant Bank of Central Africa	11(18.3)	76(24.4)	14.7	6	59.3	8.05	14.51	4.58
National Merchant Bank of Zimbabwe	11(14.3)	118(39.4)	9.3	4	41.5	3.63	na	2.81

Note: All efficiency indicators are calculated from data for December 1998; changes relate to December 1997. Bank strength refers to Tier 1 capital. Size is defined in terms of assets. CAR denotes the capital assets ratio and is used to measure the soundness of the bank. Profits are given here before tax (i.e. pre-tax profits). The ROC denotes the return on capital, measures as profits on average capital; this is used to measure performance. BIS denotes the capital adequacy ratio as calculated using the Bank for International Settlement formula. NPL denotes non-performing loans as a percentage of total loans.

Table 3
The pricing of banking services in African economies: Deposit and loan interest rates

Country	Year	Lending services			Deposit services		Spread
		Nominal loan rate	Inflation Rate	Real loan rate	Nominal deposit rate	Real deposit rate	Lending - deposit rate
Botswana	1994	13.88	10.5	3.38	10.39	-0.11	3.49
	1995	14.29	10.5	3.79	9.98	-0.52	4.31
	1996	14.50	10.1	4.40	10.43	0.33	4.07
	1997	14.80	8.6	6.20	9.25	0.65	5.55
	1998	13.55	6.7	6.85	8.72	2.02	4.83
Cameroon	1994	17.50	35.1	-17.6	8.08	-27.02	9.42
	1995	16.00	13.9	2.10	5.50	-8.40	10.5
	1996	22.00	4.7	17.3	5.38	0.68	16.62
	1997	22.00	1.5	20.5	5.04	3.54	16.96
	1998	22.00	1.5	20.5	5.00	3.50	17.00
C.A.R	1994	17.50	24.6	-7.1	8.08	-16.52	9.42
	1995	16.00	19.2	-3.1	5.50	-13.70	10.5
	1996	22.00	3.7	18.3	5.46	1.76	16.54
	1997	22.00	1.6	20.4	5.00	3.40	17.0
	1998	22.00	1.9	20.1	5.00	3.10	17.0
Ethiopia	1994	14.33	7.6	6.73	11.50	3.90	2.83
	1995	15.08	10.0	5.08	11.46	1.46	3.62
	1996	13.92	5.1	8.82	9.42	4.32	4.50
	1997	10.50	3.7	6.80	7.00	3.30	3.50
	1998	10.50	3.7	6.80	6.00	2.30	9.42
Gabon	1994	17.50	36.1	-18.6	8.08	-28.02	9.42
	1995	16.00	9.6	6.4	5.50	-4.10	10.5
	1996	22.00	0.7	21.3	5.46	4.76	16.54
	1997	22.00	4.0	18.0	5.00	1.00	17.0
	1998	22.00	4.2	17.8	5.00	0.80	17.0

30

Table 3
(Continued)

Gambia	1994	25.00	1.7	23.3	12.58	10.88	12.42
	1995	25.04	7.0	18.04	12.50	5.50	12.54
	1996	25.50	1.1	24.4	12.50	11.40	13.0
	1997	25.50	2.8	22.7	12.50	9.70	13.0
	1998	25.38	1.1	24.3	12.50	11.40	12.88
Kenya	1994	36.24	29.0	7.24	12.0	-17.00	24.24
	1995	28.80	0.8	28.0	13.60	12.80	15.20
	1996	33.79	8.8	24.99	17.59	8.79	16.20
	1997	30.25	12.0	18.25	16.72	4.72	13.53
	1998	29.49	5.8	23.69	18.40	12.60	11.09
Lesotho	1994	14.25	8.2	6.05	8.43	0.23	5.82
	1995	16.38	9.3	7.08	13.34	4.04	3.04
	1996	17.71	9.3	8.41	12.73	3.43	4.98
	1997	18.03	9.8	8.23	11.81	2.01	6.22
	1998	20.06	9.9	10.16	10.73	0.83	9.33
Malawi	1994	31.00	34.6	-3.60	25.00	-9.60	6.00
	1995	47.33	83.3	-35.9	37.27	-46.03	10.06
	1996	45.33	37.6	7.73	26.33	-11.27	19.0
	1997	28.25	9.1	19.15	10.21	1.11	18.04
	1998	37.67	29.7	7.97	19.06	-10.64	18.61
Namibia	1994	17.05	10.8	6.25	9.18	-1.62	7.87
	1995	18.51	10.0	8.51	10.84	0.84	7.67
	1996	19.16	8.0	11.16	12.56	4.56	6.60
	1997	20.18	8.8	11.38	12.70	3.90	7.48
	1998	20.72	8.6	12.12	12.94	4.34	7.78

Table 3
(Continued)

Nigeria	1994	20.48	57.0	-36.5	13.09	-43.91	7.39
	1995	20.23	72.8	-52.6	13.53	-59.27	6.70
	1996	20.32	29.3	-8.98	13.04	-16.26	7.28
	1997	20.41	8.2	12.21	7.31	-0.89	13.10
	1998	20.40	10.3	10.1	7.22	-3.08	13.18
S.Leone	1994	27.33	24.2	3.13	11.63	-12.57	15.70
	1995	28.83	26.0	2.83	7.03	-18.97	21.80
	1996	32.12	23.1	9.02	13.96	-9.14	18.16
	1997	23.87	14.9	8.97	9.91	-4.99	13.96
	1998	23.83	35.5	-11.7	7.12	-28.38	16.71
S.Africa	1994	15.58	9.0	6.58	11.11	2.11	4.47
	1995	17.90	8.6	9.30	13.54	4.94	4.36
	1996	19.52	7.4	12.12	14.91	7.51	4.61
	1997	20.00	8.6	11.4	15.38	6.78	4.62
	1998	21.79	6.9	14.9	16.50	9.60	5.29
Swaziland	1994	15.00	13.8	1.20	8.00	-5.80	7.00
	1995	18.00	12.3	5.70	10.25	-2.05	7.75
	1996	19.75	6.4	13.35	12.25	5.85	7.50
	1997	18.75	7.1	11.65	11.25	4.15	7.50
	1998	21.00	8.1	12.9	13.43	5.33	7.57
Tanzania	1994	39.00	33.1	5.90	22.5	-10.60	16.50
	1995	42.83	29.8	13.03	24.63	-5.17	16.20
	1996	37.21	19.7	17.51	13.59	-6.11	23.62
	1997	29.23	16.1	13.13	7.83	-8.27	21.40
	1998	26.67	12.8	13.87	7.75	-5.05	18.92

Table 3
(Concluded)

Uganda	1994	15.23	9.7	5.53	9.99	0.29	5.24
	1995	20.16	8.6	11.56	7.61	-0.99	12.55
	1996	20.29	7.2	13.09	10.62	3.42	9.67
	1997	21.37	7.0	14.37	11.84	4.84	9.53
	1998	20.86	7.0	13.86	11.36	4.36	9.50
Zambia	1994	70.56	53.6	16.96	46.14	-7.46	24.42
	1995	45.53	34.2	11.33	30.24	-3.96	15.29
	1996	53.78	46.3	7.48	42.13	-4.17	11.65
	1997	46.69	24.8	21.89	34.48	9.68	12.21
	1998	31.80	26.1	5.70	13.08	-13.02	18.72
Zimbabwe	1994	34.86	22.3	12.56	26.75	4.45	8.11
	1995	34.73	22.6	12.13	25.92	3.32	8.81
	1996	34.23	21.4	12.83	21.58	0.18	12.65
	1997	32.55	18.7	13.85	18.60	-0.10	13.95
	1998	42.06	31.8	10.26	29.06	-2.74	13.0

Source: Data for nominal loan rates, nominal deposit rates and price indices were obtained from IMF(1999). Inflation rates, real rates and the spread were calculated by the authors.

Table 4
Univariate statistics of key banking and liquidity indicators for African economies, 1994-8

Country		Central bank			Liquidity indicators		Deposit values	
		Foreign assets	Reserve money	Foreign Liabilities	Domestic credit	Money supply	Demand deposits	T&S deposits
Botswana	Mean	17835.4	505.8	2557.0	8976.4	1021.0	762.4	2552.0
	SD	6621.6	133.0	818.6	5459.5	293.7	234.1	1061.1
	Skewness	0.19	1.025	-0.60	0.73	1.59	1.71	1.06
	Kurtosis	-1.68	-0.26	-1.96	-2.56	2.69	3.11	0.24
Cameroon	Mean	6.68	209.3	304.4	807.9	380.8	231.9	291.1
	SD	0.98	58.27	72.76	44.1	73.2	24.0	35.3
	Skewness	-0.57	0.36	-0.27	1.44	0.73	1.44	0.56
	Kurtosis	-3.20	-2.03	-2.94	2.93	-1.14	1.72	-3.26
C.A.R.	Mean	109.5	95.6	21.7	63.1	105.2	13.3	9.9
	SD	15.37	12.1	4.7	3.04	11.01	1.19	1.18
	Skewness	-1.57	-1.15	0.93	-0.21	-1.17	0.71	1.72
	Kurtosis	2.90	2.24	0.36	-2.43	1.78	-2.35	2.98
C.d'Ivoire	Mean	307.38	578.62	260.68	1604.1	1005.1	489.6	485.9
	SD	137.7	109.9	73.5	178.9	163.29	56.71	45.51
	Skewness	-0.39	0.97	0.64	-0.038	0.35	-0.59	-1.29
	Kurtosis	0.61	0.79	0.56	-1.05	0.26	2.02	1.85
Ethiopia	Mean	4087.2	7059.2	1306.8	16533.2	9394.2	4305.8	6623.0
	SD	702.03	622.07	165.64	2879.6	403.3	849.3	1786.6
	Skewness	0.42	0.60	0.096	-0.22	1.77	0.56	-0.21
	Kurtosis	-2.76	0.32	1.97	-1.78	3.76	-3.05	-2.25

34

Table 4
(Continued)

Gabon	Mean	97.2	149.8	80.9	482.7	254.3	145.3	152.4
	SD	60.7	18.01	18.68	90.43	44.69	25.85	19.76
	Skewness	-0.38	-0.30	1.19	1.31	-0.62	-0.29	0.38
	Kurtosis	0.11	-2.73	1.43	1.93	-2.19	-2.69	-2.52
Gambia	Mean	1032.73	418.99	224.28	336.99	517.69	234.01	519.38
	SD	79.51	88.29	94.77	112.69	103.35	37.96	112.67
	Skewness	1.34	0.062	0.52	0.26	0.37	0.37	0.64
	Kurtosis	2.82	-1.53	-1.59	-1.15	-2.91	-2.88	0.066
Kenya	Mean	38549.4	77378.2	17144.8	234645.8	80053	42982	150791
	SD	10678.3	11052.7	3303.5	66335.8	12346	3829.6	41959.4
	Skewness	-0.594	-1.814	-0.720	-0.293	0.118	0.004	-0.453
	Kurtosis	-3.09	3.20	0.299	-1.208	-2.751	-2.815	-2.127
Lesotho	Mean	2275.9	361.13	148.9	660.95	674.10	584.66	647.20
	SD	825.44	104.47	9.22	479.28	196.59	164.14	67.99
	Skewness	0.345	1.125	1.523	0.093	0.867	0.76	-0.867
	Kurtosis	-1.376	1.771	2.774	-2.51	-0.202	-0.82	-1.543
Malawi	Mean	4068.3	2938.9	2910.9	3047.18	2937.8	1645.6	2655.9
	SD	4224.3	1224.7	1120.2	363.55	1308.7	717.62	1255.2
	Skewness	1.81	-0.19	2.09	-0.063	1.046	1.049	0.414
	Kurtosis	3.59	0.33	4.48	-2.68	1.463	1.219	0.327
Namibia	Mean	1049.6	507.64	480.08	6191.3	2565.9	2288.5	3035.6
	SD	339.48	114.12	412.56	1257.35	842.52	768.06	597.96
	Skewness	0.886	-0.068	-0.543	-1.006	0.140	0.19	-1.278
	Kurtosis	-0.648	-2.575	-3.229	0.0088	-1.456	-1.422	1.136

Table 4
(Continued)

Nigeria	Mean	96226.8	191805	9759.6	409268.8	24300	109368	137497
	SD	61255.5	31032.2	9052.9	76480.6	58767	31845.6	42104.7
	Skewness	0.390	-0.0795	1.019	0.422	0.435	0.349	0.528
	Kurtosis	-1.529	0.600	0.996	-1.089	-0.93	-1.836	-0.037
S.Leone	Mean	48500	54694.2	324235.6	480032.2	63001	20033.2	30800.2
	SD	22327.5	25903.0	104205.2	43102.9	22392	5052.3	14566.2
	Skewness	0.973	0.764	0.207	0.127	0.373	0.167	0.384
	Kurtosis	0.762	-1.625	-1.256	-0.705	-2.589	-2.75	-1.224
S.Africa	Mean	20187.0	27635.8	9768.2	404340.0	14817	131916	174280
	SD	9374.5	5632.4	6023.98	96283.96	47708	45371.4	26177.7
	Skewness	0.474	-0.741	0.755	0.4598	0.355	0.416	0.115
	Kurtosis	-2.784	-0.299	-0.487	-1.049	-1.07	-0.975	-1.705
Swaziland	Mean	1348.5	293.8	84.07	287.89	418.08	326.54	1021.47
	SD	468.8	13.24	47.68	143.77	81.64	64.84	235.88
	Skewness	1.032	-0.644	-1.38	1.132	-0.311	-0.329	0.938
	Kurtosis	1.176	-1.332	2.119	0.993	-1.976	-1.939	-0.303
Tanzania	Mean	277.31	332.15	459.28	634.86	449.30	194.51	371.32
	SD	118.87	70.81	68.24	50.53	80.63	30.88	93.44
	Skewness	0.121	-0.589	-0.637	0.306	-0.591	0.157	-0.387
	Kurtosis	-2.871	1.064	-2.879	-2.848	0.721	0.785	-0.437
Uganda	Mean	583239	343448	445497	364270	48453	242149	218377
	SD	243753	73708	71233	127243	10962	58975	86785.4
	Skewness	0.739	0.78	0.978	0.0779	0.721	0.642	0.532
	Kurtosis	0.871	0.358	2.192	-0.531	0.0171	-0.476	-1.356

Table 4
(Concluded)

Zambia	Mean	226.32	203.58	1755.96	2341.2	281.86	169.60	419.32
	SD	86.64	74.264	700.69	1019.67	107.28	63.29	191.18
	Skewness	-0.257	0.589	1.25	1.034	-0.071	-0.234	0.251
	Kurtosis	0.7005	-1.999	2.049	2.154	-0.97	-0.973	-0.840
Zimbabwe	Mean	6098.2	6617.8	10515.4	35717.6	16038	12991.8	7427.0
	SD	1908.56	3191.25	10096.3	21219.13	7680.5	6244.8	1884.45
	Skewness	-0.366	0.551	1.804	0.967	0.436	0.415	-0.1006
	Kurtosis	-3.066	-1.381	3.132	-0.707	-1.490	-1.249	-1.953

Source: The statistical moments are calculated from the data reported in IMF (1999).
Notes: C.A.R. = Central African Republic; T&S deposits = time and savings deposits;
      C.d'Ivoire = Cote d'Ivoire; S.Leone = Sierra Leone.