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Banking and Monetary Policy in Ghana: Has Finance Served the Real Economy?

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ABSTRACT

The post-COVID debt crisis in Ghana and across several African countries has reignited debates about development financing. The literature on Ghana in particular has shown that its financial distress is not only rooted in external constraints, but also the structural dysfunction in its domestic economy. This paper focuses on one area of the structural dysfunction in Ghana's economy – namely the financial system. Relying predominantly on central bank data, the paper contends that operations of commercial banks and the conduct of monetary policy have failed to support the real productive sectors of the economy. Specifically, bank credit to the agricultural and manufacturing sectors has persistently declined in the 25 years from 1999 to 2023. This pattern of credit repression to the domestic productive sector is aggravated by the high interest rates from the central bank's inflation-targeting regime. The paper recommends a reform of financial policy – among others, the institution of credit policies and a reorganisation of development banking.

KEYWORDS: Ghana, central banking, development finance, credit policy, monetary policy

1. Introduction

The litmus test of financial policy for developing countries is its contribution to the mobilisation of resources and their efficient or optimal allocation...

(Thandika Mkandawire, 1999, p. 327)

The initial chaos and media attention that followed Ghana's 2022–2023 debt crisis appears to have receded. The severity of the economic hardships Ghanaians have faced since the crisis broke out, and the debates about what caused the new cycle of indebtedness are well documented (Akolgo, 2023). The election of President John Dramani Mahama in December 2024 and his subsequent assumption of office in January 2025 has so far restored a certain level of hope among the majority of Ghanaians who voted overwhelmingly for him to stabilise and transform the economy. There are already early signs of an economic recovery. For instance, from April to May 2025, the Ghanaian Cedi appreciated about 16% against United States Dollar

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(Bloomberg, 2025) and that translated into cost reductions, notably the nationwide reduction of transportation fares by 15% (Myjoyonline, 2025). The overall macro-financial distress itself is far from over as government's policy space remains constrained, and citizens struggle to cope with the austerity measures imposed by the IMF-supported economic recovery programme—at least until 2026¹. Nevertheless, the initial sense of national despair that attended Ghana's 2022–2023 debt crisis has retreated, and it is now time to refocus research attention on the structural and systemic constraints to development financing in Ghana. One place to start this kind of inquiry is the domestic financial system. Assessing the nature and operations of the Ghanaian financial system is not only crucial to explaining the persistent crisis of development finance but also necessary to identifying potential pathways to creating substantial, sustainable, and socially inclusive prosperity for Ghanaians.

There is a long tradition of economic theory and evidence rooted in the foundational Schumpeterian theorisation (Schumpeter, 1939, 1934) that links finance with economic development. Entrepreneurial innovation, Waters (1988, p. 123) suggests, “constitutes creative economic activity and brings forth substantial differences in society.” Waters was quick to add, following Schumpeter, that such economic transformation is only possible with a sufficient supply of finance flowing from a well-functioning financial system. Since the 1980s financial liberalisation reforms, the finance-development nexus is, however, no longer straightforward. There is evidence that financial development may not be necessarily associated with economic growth (Ibrahim & Alagidede, 2018) or poverty reduction (Bolarinwa, et al., 2022). The key to reasserting the Schumpeterian thesis is to distinguish between finance that supports productive economic activity in the real sector from finance that is unproductive and speculative (Bezemer, 2014; Bezemer et al., 2023).

Therefore, the purpose of this paper is to analyse the extent to which the Ghanaian financial system has served the real productive economy. I argue that in Ghana, money and finance have not aligned with the interest of the real productive sector, evidenced in two ways: first, the operations of commercial banks² and second, the conduct of monetary policy. In the first instance, commercial banks have not only failed to advance sufficient credit to the domestic private sector in general as has often been the case,³ but have misallocated the available credit to ‘non-productive’⁴ sectors of the economy. Specifically, as will be shown in the empirical section of this paper, financial credit to agricultural and manufacturing sectors has been in decline from 1999 to 2023. On the contrary, a greater share of private sector credit has gone into commerce and finance—that is, to other financial institutions, import trade, and mortgage financing. While this private sector credit repression⁵ and misallocation persists, banks are increasingly investing in government

¹Ghana's \$3billion dollar extended credit facility from the IMF since May 2023 is for the duration of 36months (3 years). Which means it runs until 2026.

²Commercial banks here refer to all Deposit Money Banks (DMBs) and does not include non-bank financial institutions.

³See, for instance, the accounts of Akolgo (2022) on Ghana and Quist (2022) on Cote d'Ivoire.

⁴The theoretical distinction between ‘productive’ and ‘non-productive’ activity or credit is set out in Section 2.1 below and is also explained in Supplementary Appendix 5 regarding the Bank of Ghana categorisation of the sectoral distribution of private sector credit.

⁵In this context, credit repression, a terminology also recently used by Koddenbrock and Sylla (2019), denotes the failure of the domestic financial system to allocate significant credit to domestic private sector businesses. Unlike the financial repression terminology which is used within neoclassical eco-

securities in pursuit of higher returns as shown by the distribution of banks' investments in section three of this article. In the second instance, the Bank of Ghana (BoG), since 2007, continues to pursue an inflation-targeting monetary policy regime. The aim, as the central bank sets out, is to maintain stable prices, and yet prices have hardly been stable. Between 2007 and 2023, the average inflation rate was about 15%, rising from about 12.7% in 2007 to 54.1% at the end of 2022⁶. Based on its inflation-targeting policy, the BoG's response to these high inflation levels has been regular increases in the Monetary Policy Rate (MPR). However, hiking the MPR has not only failed to control inflation; it has pushed up commercial banks' lending rates and thus, imposed higher borrowing costs on the private sector.

By focusing on the extent to which the financial system supports the real sector in Ghana, this article responds to longstanding and contemporary policy and academic debates about the financial constraints to economic transformation in Africa. Critical analysis of finance and development in Africa, while longstanding and extensive, nevertheless leave a gap—that of a seemingly absent comprehensive and empirical analysis of credit to productive and non-productive sectors of the economy. For instance, in his seminal work, Mkandawire (1999) offered the most thorough critique of financial liberalisation in Africa, which he blamed for having frustrated economic transformation in Africa. Mkandawire's analysis relied on aggregate figures on private sector credit, gross domestic savings, and gross domestic investment, which he argued, had failed to positively respond to the reliance on interest rates during the 1990s financial policy reforms. He, however, offered no evidence on the sectoral flow of bank credit. Nissanke (2001) on the other hand analysed the performance of formal and informal financial systems in sub-Saharan Africa, demonstrating that the financial sector had failed to support 'private investment, enterprise growth and transformation' (Nissanke, 2001, 343). Like Mkandawire, Nissanke relied on gross domestic savings, gross domestic investment and private investment (as shares of Gross Domestic Product). Even recent scholarship that highlight the value of productive lending (such as Koddenbrock et al., 2022), nevertheless fall short of an empirical analysis of the allocation of bank credit to productive and non-productive sectors in the African context. Similarly, Bolarinwa et al. (2022) showed empirically, that while overall financial development may not predict lower levels of poverty, the private credit component of financial development does. They, however, did not provide a sectoral analysis of this private sector credit. Within the context of this rich and yet non-exhaustive literature, this paper is a modest contribution that offers evidence on the sectoral misallocation of bank credit in Ghana.

Similar to the broader literature, accounts of the financial sector's failure to create or allocate sufficient and affordable credit for the real productive economy are not new in Ghana.

nomic theorisation to denote government financial policies that are considered as distortive to the financial system, crowd out private investment, and thus hinder economic growth, credit repression is used here to suggest that the low availability of credit to the private sector or some sectors could either be the result of banks' credit discrimination policies, the organisation of the banking system (especially if it is foreign-dominated and thus extroverted), and/or the poor conduct of central bank monetary policies.

⁶Headline inflation trend shown by the Bank of Ghana <https://www.bog.gov.gh/economic-data/time-series/>.

There is for instance, an extensive literature on small and medium-scale enterprises' (SMEs') inability to access credit from the Ghanaian banking system. In their empirical study of the challenges to financing SMEs in West Africa, Quartey et al. (2017) blamed Ghanaian SMEs' difficulties in accessing loans on their small sizes and the informal nature of their businesses. Consequently, the authors recommend that SMEs formalise their businesses and or '...join Business Associations and seek group credit schemes' (p. 26). Similarly, Abor and Biekpe (2007, p. 100) found that SMEs' ability to access bank credit is dependent on their possession of high value 'tangible fixed assets' collateral, as well as the size and age of the firm. For Abor and Biekpe, the information asymmetry that constraints banks' assessment of SMEs collateral can be mediated by the businesses 'keeping proper and accurate records of firm operations' and the banks developing 'alternatives to property as collateral to secure loans' (p. 100). Earlier, Aryeetey (1998) underscored the failure of the formal banking system in Ghana and across other parts of Africa to deliver sufficient credit for private sector development. Drawing largely on the experiences of Ghana, Aryeetey argued for the integration and deployment of informal and semi-formal financial institutions and practices to aid the formal banking sector in addressing the funding needs of the private sector.

A common theme that runs through these separate studies is an emphasis on the challenges private sector businesses face in securing loans from banks. These studies appear to make an implicit assumption that credit to the private sector is predominantly constrained by banks' inability to effectively assess creditworthiness. Institutional arrangements such as the ownership of the banks, their loan granting practices, the regulatory framework of the banking sector and the influence of monetary policy, have received less attention in these studies. Moreover, there is an apparent absence of a systematic analysis of the sectoral allocation of domestic credit to the private sector. While it is important to know the level of bank lending to the private sector, it is even more crucial to identify the sectoral distribution of such credit. As such, this paper's contention is that the existing literature on finance and development in Ghana can be strengthened by highlighting and providing evidence of the financial system's repression of credit to the productive sector in Ghana.

The rest of this paper is structured as follows. [Section 2](#) is a discussion of the theoretical and empirical literature on credit, monetary policy and economic development. Its purpose is to establish the causal link between finance (also financial policy) and economic development. It conceptualises credit as central to economic transformation and distinguishes between credit allocation to productive and non-productive sectors based on the foundational Schumpeterian theorisation. Additionally, this section shows the role of central bank monetary policy in the direction of bank credit and, thereby, highlights the essential mix of financial policies that can direct credit in support of transformative economic growth. In [Section 3](#), I analyse the sectoral distribution of credit, monetary policy rates, and inflation, demonstrating how these influence the credit necessary for the growth of the real productive economy. I show in particular that the agricultural and manufacturing sectors have received declining shares of bank credit in the last 25 years. [Section 4](#) is conclusion and policy implications. It summarises and concludes the paper's arguments and discusses the policy options necessary to redirect and increase credit to finance real productive private sector investments.

2. Credit, Monetary Policy, and Economic Development

As set out in the introduction, this paper is primarily concerned with the extent to which Ghana's financial system and policy has supported a substantial flow of credit to the real sector. It is therefore important to establish the theoretical case linking the key concepts employed here—namely credit, monetary policy and economic development. Two questions are particularly pertinent in this regard: first, what is the role of financial credit in economic development? Two, should governments in developing countries (through central bank policies), influence the volume and direction of credit to certain sectors of the economy?

2.1. Credit and Economic Development

The theoretical case linking credit and development dates back to Joseph Schumpeter's foundational works: *Theory of Economic Development* (Schumpeter, 1934) and *Business Cycle* (Schumpeter, 1939). Schumpeter posited that credit is essential to the entrepreneurial innovation that propels economic development in a capitalist economy. He observed, as Bezemer (2014, p. 937) recounts that: 'the new combination of means of production and credit are the fundamental phenomena of economic development' and that the credit system 'is the characteristic method of the capitalist type of society...for forcing the economic system into new channels, for putting its means at the service of new ends... it is as clear *a priori* as it is established historically that credit is primarily necessary to new combinations [i.e. innovation]...' (Schumpeter, 1934, pp. 69–70, 74). King and Levine (1993) affirmed this conceptualisation of the causal link between credit and development. In a cross-country study of 80 countries for the period 1960–1989, King and Levine found that financial development is '...strongly associated with real per capita GDP growth, the rate of physical capital accumulation, and improvements in the efficiency with which economies employ physical capital' and reluctantly affirmed that 'Schumpeter might have been right about the importance of finance for economic development' (King & Levine, 1993, p. 717, 735). The explosion of publications that followed King and Levine's seminal paper could be summarised into two sets of contributions: those who have asserted the positive correlation between finance and development (Levine 1997 for an extensive review), and those, especially since the 2008 financial crisis, who demonstrate that some levels of credit or financial deepening could have adverse effects on economic growth (Beck et al., 2012).

At the center of these mixed results is the analytic confusion generated by a failure to delineate between credit generated by the financial system to finance productive activity and other forms of credit. The conceptual distinction between 'productive' and 'unproductive' credit received an earlier intervention from Werner (1997), and was subsequently, thoroughly discussed by Bezemer (2014) who drew extensively from a holistic interpretation of the Schumpeterian theorisation. Schumpeter, Bezemer clarifies, distinguished between two kinds of credit in the economy: a primary wave of credit (productive credit) and a secondary wave of credit (unproductive credit). Productive credit refers to finance '...which plays a role in the entrepreneurial innovation process which he [Schumpeter] viewed as the motive force of capitalist development...precisely for this reason, distinguishing it from unproductive credit was

important' (Bezemer, 2014, p. 937). In contrast, unproductive credit generated in the secondary wave (usually larger than that generated in the primary wave), finances speculative activities, household consumption, and mortgages.

Most of the macroeconomic literature, Bezemer observed, has erroneously focused on the aggregate flow of credit from the financial system, usually measured by credit-to-GDP ratios, which are taken as indication of financial deepening. Since the credit/GDP ratio does not disaggregate productive credit from unproductive credit, it increases the probability of financial deepening exhibiting a negative relationship with economic growth and thereby suggesting a relationship contrary to the Schumpeterian theorisation of a positive relationship between credit and economic development. Once credit is disaggregated, it becomes clear that credit that finances productive businesses enhances growth while unproductive credit does not. The key lesson from the literature is to think not so much about the volume of credit but where the credit goes. In other words, the crucial concern should not be whether and how much banks lend to the private sector but instead a question of what purpose and to whom they lend. If bank lending fails to support innovation, product creation, or value addition (specifically agriculture and manufacturing) as I argue for the case of Ghana, then the credit generated by the financial system is unproductive and suggests a dysfunction of finance.

2.2. Financial Policy and Credit Allocation to the Real Sector

The statement that governments in developing countries such as Ghana can, through central banks, institute policies to direct credit is hardly in dispute. Rather, the debate is often that of whether they should, and how they should go about it. The vast theoretical and empirical literature on this issue can be summarised within two broad spectrums. On the one hand, there are those within neoclassical circles, specifically financial liberalisation advocates (notably, Barro & Gordon, 1983; Rogoff, 1985; Kydland & Prescott, 1977; McKinnon, 1973; Shaw, 1973) who suggests non-interference from government but rather a reliance on the market force of interest rates to mediate the allocation of credit to borrowers. However, more than four decades of financial liberalisation has not only failed to produce tangible development outcomes but has also been associated with cycles of financial crises (Botta, 2018). On the other hand are those (such as Amsden, 2001; Amsden & Euh, 1993; Arestis & Sawyer, 2006; Bezemer et al., 2023; Dow, 2017; Mkandawire, 2001, 1999; Wade, 1990; Werner, 1997) who suggest the institution of credit policies or a proper conduct of monetary policy by central banks, with the aim of directing bank credit into productive economic activity.

The analysis of the sectoral distribution of bank credit in this article follows the second, nuanced view that policy intervention is essential to organising finance in support of economic development. Werner (1997) for instance studied the lending patterns of Japanese banks, showing how speculative practices led to a decline in banks' loans for productive investment, and concluded:

The results imply for policy makers that it is imperative to monitor the allocation of credit and intervene, if credit creation for unproductive, especially speculative purposes takes place to a significant degree...Our findings suggest that central bank targeting of credit aggregates is likely to be more successful than traditional monetary or interest rate targeting (Werner, 1997, p. 305).

Similarly, Amsden (2001) as well as Amsden and Euh (1993) who extensively studied South Korea's financial system and the country's industrialisation success observed that South Korean policymakers (particularly the Ministry of Finance) did not follow the liberal financial reforms proposed by international finance institutions. The Korean financial system, Amsden and Euh noted, '...operates under the umbrella of an industrial policy, and economic goals have been attained by means of investments in institutions rather than by exclusive reliance on the price mechanism' (Amsden & Euh, 1993, p. 379). Korean authorities understood that the claim by financial liberalisation advocates that higher real interest rates will attract increased savings, which consequently drive investment and growth, was a fallacy. Instead, the Korean Ministry of Finance was guided by the fact that '... low interest rates are necessary to stimulate investment, while high interest rates are not as necessary to mobilise savings' (Amsden & Euh, 1993, p. 380). The implication of this realist view of the financial system is that the Korean government, as Amsden and Euh summarises, actively intervened to direct credit to productive ends:

The same point is illustrated by the method adopted by the Korean government to channel more credit to small- and medium-size firms. Instead of granting banks and other financial institutions *carte blanche* to decide to whom to lend (on the presumption that in the absence of heavy-handed government, small and medium size enterprises will get their fair share of credit), the government has taken the opposite tack. It has set minimum quotas on the amount of credit that financial institutions must allocate to such firms (Amsden & Euh, 1993, pp. 389–390).

More recently, Bezemer et al. (2023) have offered a comprehensive empirical account in support of the case for the institution of credit policies. In their study of 17 advanced economies covering the period 1973–2005, Bezemer et al. observed that prior to the 1980s Washington Consensus and the accompanying financial deregulation, governments and central bankers instituted both State Investment Banks and deliberate credit policies to '...support industrial policy, while repressing credit flows into less desirable areas, including household debt' (Bezemer et al. 2023, p. 462). However, these interventionist policies were abandoned following the deregulation, liberalisation and privatisation of the 1980s. As such, Bezemer et al. found that the rollback of credit controls, financial account controls and the privatisation of state banks that followed this neoliberal turn, led to a significant decline in the business share of total bank credit since the 1990s across the countries.

This developmental imperative of central banking was well understood in the first decade of Ghana's political independence. The BoG which was established days before the declaration of independence, was primarily charged with the issuance and redemption of notes and coins of the Ghana Pound, the maintenance of the country's reserves, maintenance of monetary stability and serving as banker and financial advisor to the government.⁷ However, shortly after independence in 1957, Kwame Nkrumah's government began to reconstruct the central bank so that its operations aligned with the national development agenda. Accordingly, the principal objectives of the BoG were expanded in the Bank of Ghana Act 1963 (Act 182). In addition to issuing and redeeming notes and coins, Section 3 required the bank to:

⁷Bank of Ghana Ordinance No. 34/1957 Section 5.

...to regulate and direct the credit and banking system in accordance with the economic policy of the Government...propose to the Government measures which are likely to have a favourable effect on the balance of payments, movement of prices, the state of public finances and the general development of the national economy...

This focus on what can be described as a developmentalist central banking was not sustained following the economic crisis of the 1980s. The financial liberalisation that began with 1980s/1990s structural adjustment program gradually eroded the central bank's responsibility of fostering the development of the national economy. Financial liberalisation during structural adjustment, Mkandawire (1999) recounted, excessively limited government involvement in the financial system, treating any intervention by policy makers as financially repressive following the McKinnon-Shaw thesis. Mkandawire observed that rather than 'addressing issues central to national development and nation-building' financial policy was directed at 'stabilisation and debt repayment' (Mkandawire, 1999, p. 321). Practically, the consequence of liberalisation is that 'economic policy has given overwhelming priority to financial policy instruments and objectives (exchange rates, interest rates) relative to concerns for the 'real' side variables and goals that directly affect employment and growth' (Mkandawire, 1999, p. 321). Particularly in Ghana, liberalisation resulted in the adoption of flexible exchange regimes, privatisation and sale or liquidation of state banks, and the eradication of capital controls (Akolgo, 2023; Hutchful, 2002, 1996) and the adoption of liberal international banking standards (Jones, 2020). Subsequently, independent central banking that prioritised monetary stability was formalised.⁸ Since 2007, this focus on monetary stability, achieved through an inflation-targeting monetary policy was entrenched as the non-negotiable objective of the BoG. What has been the consequence of this liberal approach to financial policy? The next section responds to this question and provides evidence on the implication for credit allocation and distribution.

3. Evidence of Dysfunction in Ghana's Financial System

As set out in the introduction, this paper's main argument has been that the operations of commercial banks and the conduct of monetary policy have not sufficiently aided investments in the real economy. This section provides empirical evidence in support of that claim. Specifically, it analyses the sectoral distribution of bank credit to the private sector, inflation rates, the BoG's policy rates, and average commercial bank lending rates. The analysis focuses mainly on the period 1999–2023, relying on the consistent data available in a series of reports from the BoG. Unlike indicators like the historical trends of inflation and BoG policy rates, there is no publicly available database on the sectoral distribution of bank credit. However, the data is reported in multiple Bank of Ghana reports. Specifically, data is drawn from the BoG annual financial statements and quarterly bulletins between 1999 and 2023. Detailed descriptions of the various reports from which data is compiled are indicated in [Supplementary Appendix 1](#). Percentages of the sectoral distribution of credit to the private sector are calculated using the absolute figures reported by the BoG. Where available, data on the years before 1999 are relied on to emphasise the shifts in credit allocations to

⁸Both the Bank of Ghana Act 2002 (Act 612) and the Bank of Ghana (Amendment) Act, 2016 (Act 918) set price stabilisation as the bank's primary objective.

various sectors of the economy. Data on the inflation and monetary policy rates are accessed from the BoG public database available on its official website.

Supplementary Appendices 2–4 provide an overview of the macroeconomic context in Ghana. It is clear from the data provided by the Ghana Statistical Service that, Ghana has experienced a largely erratic growth trend since political independence in 1957. The substantial economic growth in the 60s and early 70s, driven by the import substitution industrialisation, was interrupted in the mid1970s as growth declined to its worst of negative 12.4%. A brief recovery in 1978 soon descended into a crisis in the 1980s. Growth was relatively stable in the early 2000s. With the commencement of oil production in 2011, Ghana posted a record growth of 14%. The post-Covid crisis has however driven down growth to about 2.9% in 2023. There is also the issue of unemployment which rose to about 14.7% in 2023 from about 8.4% in 2017. This was indicative of the deteriorating economic conditions that accompanied the 2022–2023 debt crisis. Details of these macroeconomic conditions including inflation, are indicated in the various chats in **Supplementary Appendices 2–4**. The analysis of credit allocation from the banking sector, which is the main of focus of this article proceeds in two subsections focusing on commercial banks' operations and central banking.

3.1. Bank Operations – Domestic Credit to the Private Sector/Sectoral Distribution of Credit

Before discussing its sectoral distribution, it is important to point out the general low levels of domestic credit to the private sector as a percentage of Gross Domestic Product (GDP). This was already highlighted in Akolgo (2022) where I showed the trend of credit allocation in Ghana relative to that of the sub-Saharan African

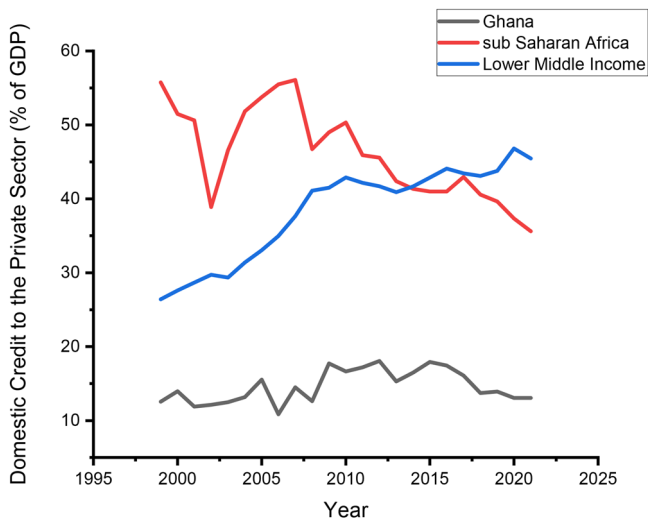


Figure 1. Domestic credit to the private sector (1999–2023). *Source:* Author drawings from World Bank Development Indicators <https://databank.worldbank.org/reports.aspx?source=2&series=FS.AST.PRVT.GD.ZS&country=GHA>

average which excludes high income countries. In this instance, an additional comparative trend for lower middle-income countries is included as shown in [Figure 1](#). This trend is included to account for the fact that since 2010 Ghana has been classified as a lower middle-income country. The data from [Figure 1](#) shows that Ghanaian banks allocated less credit to the domestic private sector as compared to both the continental average, and that of lower middle-income countries. At least, between 1999 and 2021, the domestic credit to the private sector averaged about 14.6% of GDP, more than two times less than that of the sub-Saharan African and lower middle-income averages of about 46 and 38.3% respectively. More than this general level of credit repression, the sectoral shares of bank credit to the private is a main concern in this paper. Three trends can be observed from the patterns of banks' credit to the private sector in Ghana.

3.1.1. Declines in Agriculture and Manufacturing Shares of Credit

Agricultural and manufacturing shares of domestic credit to the private sector have declined consistently over the period under consideration as shown in the negative slope of the trend lines of manufacturing ([Figure 2](#)) and agriculture ([Figure 3](#)) as well as the data in [Table 1](#). Between 1999 and 2023 the manufacturing share of bank loans declined by about 54.2% from 24.9% of GDP to 11.4% of GDP. The agricultural sector saw an even sharper fall of about 65.2% in the same period from 11.8% of GDP to about 4.1% of GDP. What could have accounted for this credit repression to the manufacturing and agriculture sectors? Several factors played a role, but they all revolve around the evolution of financial and economic policy since the structural adjustment programs of the 80s and 90s. A few factors are worth noting.

First, the withdrawal of credit controls. Starting in Kwame Nkrumah's developmental agenda in the 1960s until 1982, Ghanaian financial policy mostly emphasised credit controls by the BoG so as to direct credit to agriculture and manufacturing.

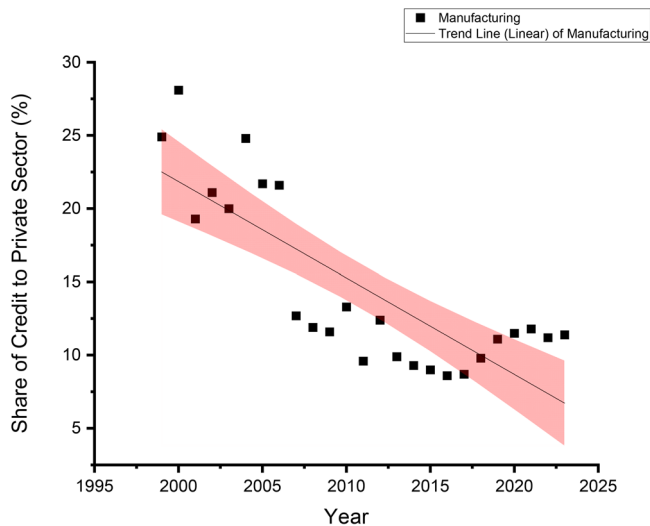


Figure 2. Manufacturing share of domestic credit to the private sector (1999–2023). *Source:* Author drawing from Bank of Ghana Data ([Supplementary Appendix 1](#)).

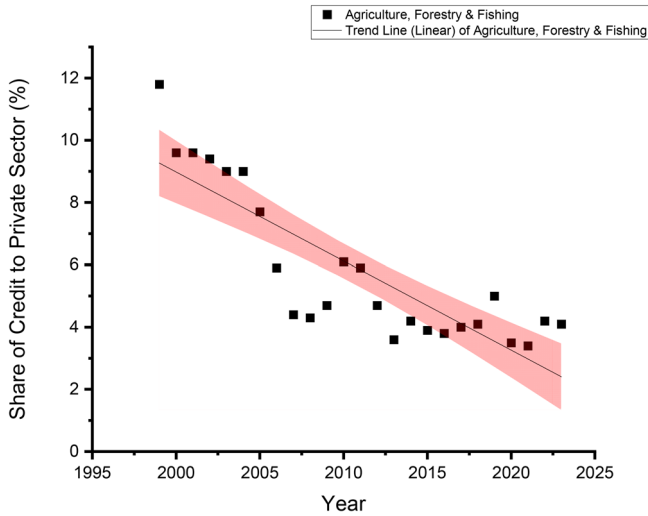


Figure 3. Agricultural share of domestic credit to the private sector (1999–2023). *Source:* Author Drawing from Bank of Ghana Data ([Supplementary Appendix 1](#)).

Credit controls first instituted by the BoG in 1964, Sowa (1991) recounted, were enforced through sectoral credit ceilings, interest rates, reserve requirements, and mandatory lending ratios for various sectors. For instance, banks were not allowed to lend outside agriculture and industry any amounts exceeding 5,000 Ghanaian Pounds without the approval of the BoG. By 1982, the BoG required that 20% of bank credit go to agriculture. As Sowa emphasises: ‘this system which has a developmental objective, is also intended as a credit rationing scheme to curb excessive expansion in the money supply’ (Sowa, 1991, p. 29). In the course of the economic recovery programme under structural adjustment, these policies of directed lending were gradually reduced and by the 1990s, were completely abolished. This is evident in the decline of agricultural credit during the adjustment period (Table 2). The 1982 BoG directive on agricultural lending raised credit to the sector from 16.2% in 1981 to about 21.6% in 1982 and further to 31.9% in 1984. However, as financial deregulation and liberalisation took root, the sector’s share of bank credit began to decrease consistently. By 1993 when Ghana returned to multiparty democracy, agriculture’s share of bank credit was in single digits.

Second, the structural shift from import substitution back to intensive primary commodity exports. Import substitution industrialisation in the 60s and 70s emphasised an elimination of imports that could be produced locally. The focus was on expansion of agriculture and manufacturing. Combined with the financial directives from the BoG, this industrialisation agenda directed finance to the productive sector. With the collapse of import substitution, and the growth of imports of commodities previously produced locally, bank lending shifted in favour of commerce and trade (mainly the wholesale and retail of imported commodities). Third, the deregulation and privatisation of the banking industry. Private, mostly foreign banks had little motivation to lend to agriculture and manufacturing. Agriculture in particular requires long-term loans, and its high risks mean chances of timely repayment are usually very low. Therefore, banks preferred to lend to retail trade. Besides, the empirical

Table 1. Sectoral distribution of domestic credit to the private sector (1999–2023).

Year	Agriculture, forestry & fishing		Export trade	Transport, storage & communication		Mining & quarrying	Import trade	Construction	Commerce & finance	Electricity, gas & water	Services	Cocoa marketing	Miscellaneous
1999	11.8	3.1	24.9	2.7	5.8	4.5	8.9	15.7	4.2	9.3	1.2	8	
2000	9.6	2.3	28.1	3.1	5.5	5.5	6.8	16.8	4.6	9.1	0.8	7.9	
2001	9.6	2.4	19.3	3.5	4	3.6	6.8	28.4	4	9.4	0.8	8.2	
2002	9.4	2.8	21.1	4	3.7	6.7	7.8	12.8	4.9	11.3	2.3	13.2	
2003	9	3	20	5	3	7	5	18	4	11	3	12	
2004	9	2.4	24.8	3.5	2.9	9.6	7.9	13.2	0.6	12.2		14	
2005	7.7	2.1	21.7	2.6	4	8.6	6.7	14.7	1.7	16.6		13.7	
2006	5.9	1.6	21.6	3.1	4.3	8.4	9.2	15.3	2.2	19.3		9.1	
2007	4.4	1.7	12.7	3.9	3.2	4.9	7.6	25.2	3.3	22	1.1	10	
2008	4.3	1.4	11.9	2.9	2.9	5.2	6.8	26.2	4	23.9	1	9.6	
2009	4.7	1.7	11.6	4	2.7	5.3	7.8	24.1	6.3	21	0.7	10	
2010	6.1	1.9	13.3	4	2.7	5.8	7.5	23.3	6.5	20.6	0.5	7.7	
2011	5.9	1.3	9.6	4.4	4.6	10.1	8.6	15.6	5	26.2		8.8	
2012	4.7	1.2	12.4	5.4	2.4	8.8	9.2	15.9	6	25.2		9	
2013	3.6	0.9	9.9	4.6	3	10.3	10	16.4	8.1	25.3		7.8	
2014	4.2	1.1	9.3	6	3.1	8.7	10.5	14.6	9.7	22.4		10.4	
2015	3.9	0.6	9	4.5	2.2	8.2	10.5	16.4	12.6	22.4		9.7	
2016	3.8	0.5	8.6	4.2	2.3	6.8	10.5	22.7	11.5	18.6		10.5	
2017	4	0.9	8.7	6.5	3.2	5.5	11	21.2	8.6	18.4		12	
2018	4.1	0.7	9.8	9.9	3.3	4.7	9.9	17	8.2	20.9	2	9.5	
2019	5	0.8	11.1	7.6	3.1	3	10.2	18.9	5	24.5		10.8	
2020	3.5	0.4	11.5	7.1	2.7	2.8	10.1	22.7	5.8	26.6		6.8	
2021	3.4	0.4	11.8	6.9	1.7	3.6	10.5	15.5	4.1	34.9		7.3	
2022	4.2	0.6	11.2	5.6	2.5	3.2	10.1	18.1	5.5	32.7		6.3	
2023	4.1	0.4	11.4	5.5	3.7	7.3	9.4	14.8	3.7	33		6.6	

Source: Author calculations based on data from Bank of Ghana reports ([Supplementary Appendix 1](#)).

Table 2. Agriculture, forestry and fishing share of commercial bank credit (1981–1993).

Year	Agriculture, forestry and fishing share of commercial bank credit (%)
1981	16.2
1982	21.6
1983	30.5
1984	31.9
1985	22.9
1986	17.9
1987	22.1
1988	16.6
1989	15.5
1990	15.8
1991	13.6
1992	11.1
1993	9.6

Source: Author calculations from Ghana statistical service's quarterly digest of statistics – 1989, 1990, 1995.

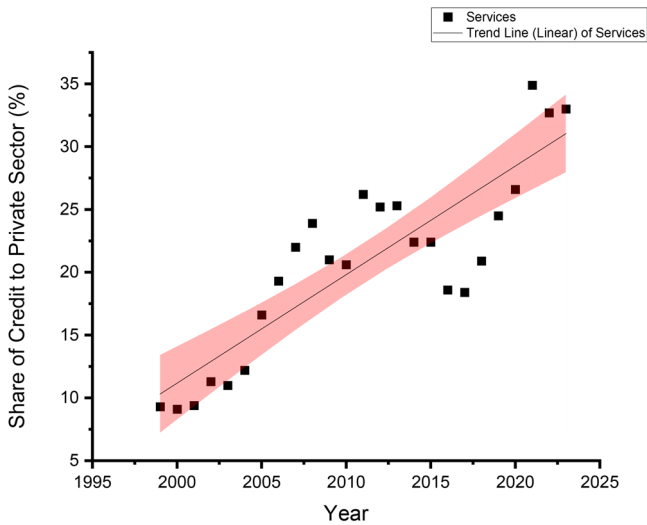


Figure 4. Services share of domestic credit to the private sector (1999–2023). Source: Author drawing from Bank of Ghana Data ([Supplementary Appendix 1](#)).

evidence on foreign banks in low-income countries is clear that they tend to lend less to domestic private sector businesses, especially small-scale and medium enterprises (SMEs). There are several reasons for this, including the mainstream account of information asymmetry between banks and predominantly informal SMEs (Quartey et al., 2017) or the critical accounts which suggest that these banks are more interested in increasing shareholder value through trading in government securities and repatriating profits, rather than encouraging local business development (Akolgo, 2022).

3.1.2. Larger share of Credit goes to Services, Commerce and Finance

Unlike agriculture and manufacturing, the service sector's share of total private sector credit has increased significantly since 1999 (see [Figure 4](#) and [Table 1](#)). Between

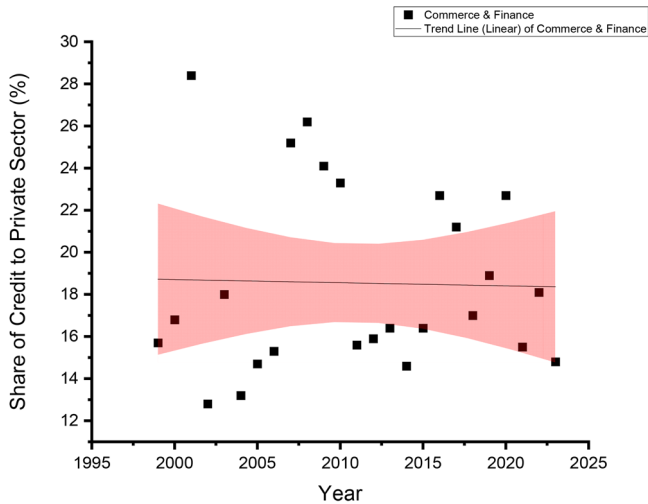


Figure 5. Commerce and finance share of domestic credit to the private sector (1999–2023). *Source:* Author drawing from Bank of Ghana Data (Supplementary Appendix 1).

1999 and 2023, its share of bank credit increased by more than 250% from 9.3 to 33% of total credit to the private sector. It is instructive to note that in 1999, agricultural share of credit was 2.5% higher than that of services. However, by the end of 2023, the service sector’s share of total private sector credit was about eight times that of agriculture (Table 1). Commerce and finance’s share of total credit (Figure 5) has not shown any clear trend in the 25 years from 1999 to 2023. It has, however, received a relatively large share of bank loan advances to private sector, far above all sectors except the service sector. In the 25-year period, the service sector received on average 20.7% of bank credit; 17.3%, went to commerce and finance; 14.6% was allocated to manufacturing; and agriculture received on average 5.8% of bank credit.

The question that emerges from this evidence of sectoral distribution of bank credit to the private sector is: why does it matter where credit goes? The answer to such a question ultimately revolves around the developmental imperative to expand the economy and provide high, inclusive and sustainable living standards for citizens in a low-income country such as Ghana. In all economies, but especially low-income countries, agricultural productivity is essential to meet food demand, create jobs, and produce raw materials that can support any industrialisation agenda. The manufacturing sector is similarly important to diversifying production and exports from the primary extractive or agricultural commodities, to finished goods that offer higher value domestically and when exported. Financing is central to productive agriculture and industrialisation. It is with this understanding that governments in the developmentalist period focused on channeling finance into these key sectors of the economy.

However, the effect of repressed credit to agriculture and manufacturing since the structural adjustment programs in the 1980s can have implications for the nature of economic growth. While this paper does not test the empirical link between sectoral distribution of credit and sector contributions to GDP, it is important to note that consistent with the agricultural sector’s declining share of credit, its contribution to GDP has similarly been in decline (Figure 6). Other factors may be contributing to

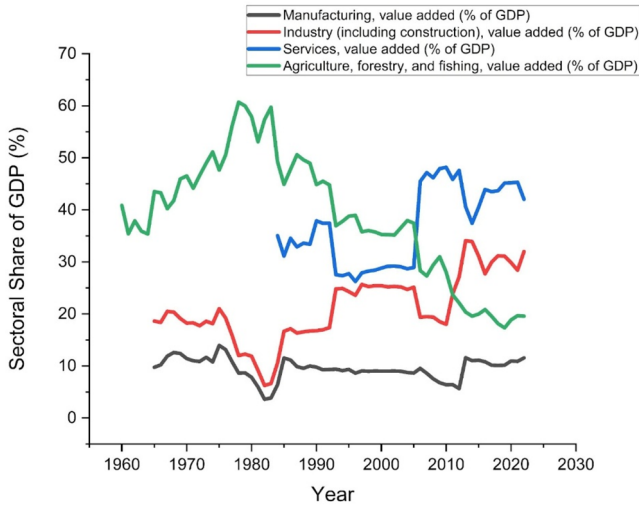


Figure 6. Sectoral distribution of GDP (1960–2023). *Source:* Author drawing World Bank Development Indicators Data <https://databank.worldbank.org/reports.aspx?source=2&series=NV.AGR.TOTL.ZS&country=GHA>.

the sector's diminishing share of GDP. However, financing for agricultural investment can hardly be dismissed. If one considers the classic view of the path to structural transformation, namely a transition from agricultural dominance to manufacturing and services, Figure 6 would, mistakenly, be evidence of significant structural change in Ghana's economy. However, the declining agricultural share of GDP as well as the disproportionately large service sector in most African countries is more of a structural dysfunction and less an indicator of structural change. For instance, a large part of the growth of financial, communication, and transportation services are rather the result of industrial expansion from industrialised, high-income countries rather than an expansive knowledge economy in Ghana. Good examples include telecom companies like Vodafone, MTN, Airtel; transportation services from Uber and Bolt; and the numerous foreign financial institutions that dominate the Ghanaian banking sector. That most African countries have a disproportionate service sector which is not necessarily a result of a knowledge intensive economy is not a new phenomenon. In the early 2000s for instance, Ajakaiye et al. (2007) observed this structural weakness occasioned by declines in agriculture and manufacturing while service industries expanded across the continent. Behuria and Goodfellow (2019) have offered more comprehensive analysis of services-led development. Drawing on evidence from Rwanda, Behuria and Goodfellow sought to explain the extent which a reliance on services to achieve the developmental successes that are credited to the East Asian developmental states which relied on manufacturing for their socio-economic transformation. Central to the East Asian experience yet ignored in the literature, Behuria and Goodfellow noted, is that they successfully integrated labour into their development strategies. Accordingly, they contend that it is difficult to rely on services to attain similar patterns of growth and job creation because of the high levels of human capital that will be required. Practically, Behuria and Goodfellow acknowledge, affirming Rodrik (2016) that:

Although services such as IT and finance can in theory play the 'escalator role that manufacturing has traditionally played', such services sectors are highly skill-intensive and cannot absorb the type of labour that exists in low- and middle-income countries (Behuria & Goodfellow, 2019, 586).

In the case of Ghana, it follows that the defunding of agriculture and manufacturing since 1980s and the consequent fall in their contribution to national output in relation to services is a worrying trend that has to be addressed. In the period under consideration, it has been shown that commerce and finance and what is grouped as services, receive a large share of bank credit. What is credit financing in those industries? According to the Bank of Ghana banking sector reports, the import trade sub-sector receives the larger share of credit categorised as commerce and finance (Bank of Ghana, 2006). Other categories include mortgage financing, cocoa marketing, and credit to other financial institutions. For instance, as at end of December 2006, import trade sub-sector received about 22.3% of credit in the Commerce and Finance sector. This was followed by the mortgaging financing subsector with 5.5% and the cocoa marketing subsector with 4.9% (Bank of Ghana, 2006, p. 24). Credit to other financial institutions is particularly speculative, with financial institutions ultimately reinvesting such credit into trading government securities. That constrains any serious attempt to break out of the historical commodity dependence. It also means decent jobs cannot be created in agriculture or industry as most Ghanaians are reduced to informal petty trading of foreign goods. This dysfunction of the financial system has implication for macro-finance. With declines in agricultural productivity, more foreign exchange is drained to import food commodities like rice which could have been produced locally. It is not surprising therefore that amid the 2022–2023 crisis, the Ghanaian government restricted access to foreign exchange for the importation of rice (Myjoyonline, 2022). However, as long as the financial system fails to provide substantial, affordable and patient financial credit to farmers, local production cannot suddenly increase to replace the rice imports.

3.1.3. Banks Invest More in Government Securities

Another noticeable trend in the banking sector is the shifting pattern of banks' investments. While domestic credit to the private sector has remained low, and lending to agriculture and manufacturing has declined, banks have increased their investment in government securities. As shown in Figure 7, banks have significantly acquired government securities since 2010 and particularly in the four years prior to the 2022–2023 debt crisis. Between July 2010 and June 2021, banks' investment in government securities rose by nearly 80% from about 40.2% of their total investment in 2010 to about 72.6% in 2021. Banks' equity financing has been negligible (about 0.3% of total bank investment in 2021) as banks focused mainly on purchasing securities and treasury bills (which both accounted for about 99.7% of their investments in 2021). Banks and their customers on whose behalf they invest, find government securities as both safer and lucrative investments with interest on treasury bills in particular averaging above 30% in 2023. In the absence of a well-developed capital market, government has had to continuously rely on borrowing from the banking sector. Local Currency Bond Markets (LCBMs) could have been an alternative to borrowing from the banking sector. However, in most developing countries, domestic financial markets remain underdeveloped as Cingolani and Toporowski (2024) asserts. In particular, as Berensmann et al. (2015) noted, the

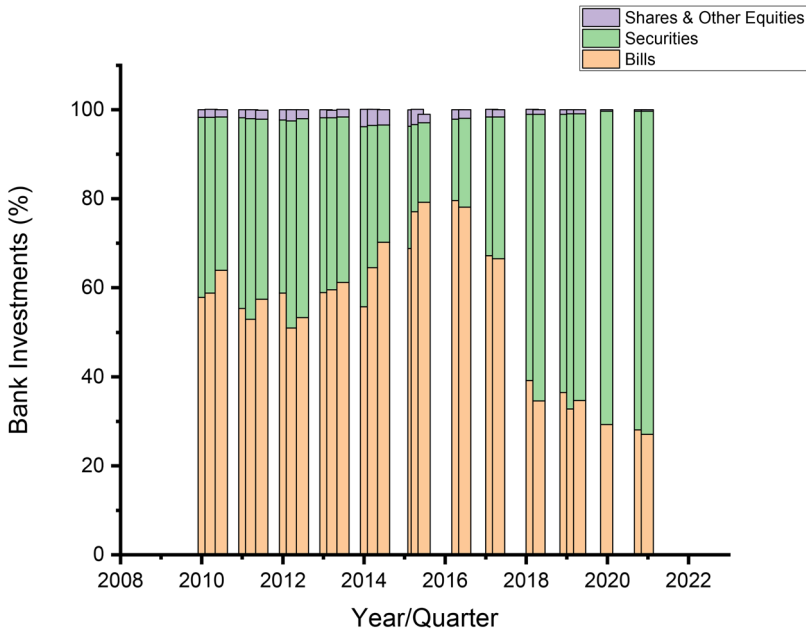


Figure 7. Composition of Banks' Investments (2010–2021). *Source:* Author drawing from Bank of Ghana data from annual banking sector reports.

underdeveloped capital markets across the continent mean LCBMs cannot function as significant source of private funding for governments. Even if LCBMs are to be relied on, it is important to note that because such bond markets are still dominated by domestic banks, the issuance of local currency bonds could negatively affect the volume of domestic private credit (Dafe et al., 2023). Nevertheless, the consequence of an excessive reliance on borrowing from banks is that banks have shown little interest in lending to SMEs given the investment profitability and safety that the Ghanaian government offers for its securities.

This pattern of shifting away from lending to the private sector to a predominant focus on government securities has not only repressed credit to the productive sector but has also exposed the banking sector to crisis associated with the government's sovereign distress. The fallout from the 2022–2023 debt crisis is a clear example. At the end of 2021, just before Ghana fell into its 2022–2023 crisis, more than 30% of domestic debt was held by banks (Akolgo, 2023). When the government entered default and asked for a \$3billion extended credit facility from IMF, it was asked to restructure its debt, starting with the domestic component. Consequently, as Akolgo (2023) recounted, government instituted a domestic debt exchange programme, delayed bond repayments, and since government securities occupied a large component of banks' balance sheets, they suffered significant impairment losses which Atuahene and Frimpong (2023) estimated to be about GHC37.7 billion. Ultimately, the initial dysfunctional system under which bank resources are diverted from supporting the real economy will be reinforced, as the government will devote more resources into what it called the Ghana Financial Stability Fund, which aims at preventing distressed banks from collapsing.

3.2. Central Banking

A second aspect of dysfunction in the Ghanaian financial system relates to central banking, particularly the conduct of monetary policy. Beginning in 2007, the BoG, an independent central bank, operates an inflation-targeting monetary policy. Its current inflation target is 8.0 ± 2 per cent. After each of its bi-monthly meetings, the Monetary Policy Committee (MPC) of the BoG decides whether to maintain, increase or decrease the MPR in response to inflation. Because the bank's inflation targeting draws on the theoretical assumption that higher inflation is demand driven and thus a monetary problem, it more often than not raises the policy rate in the hope of discouraging demand, attracting savings, and ultimately tackling inflation. However, even on its own terms, this monetary policy stance has failed to yield results, at least in the last two decades. For instance, the BoG responded to the inflation surge in 2020–2021 with hikes in the policy rate. First, from 13.5% in September 2021 to 14.5% in November 2021 and then a further increase by 250 basis points to 17%. The hikes continued with subsequent MPC meetings until November 2022 when there was another 250 basis points increment from 24.5% to 27% (Table 3 and Figure 8). However, raising interest rates did little to stop the growing inflation. On the contrary, inflation has been rising with policy rate hikes. For instance, from less than 13% in December 2021, inflation rose persistently, reaching as high as 54.1% at the end of 2022 (Figure 9).

It is understandable that monetary policy failed to halt inflation, and policy makers should have considered the reasons monetary policy failed. As a heavy import dependent economy, Ghana imports a lot of food. The fallout from the COVID crisis and later in 2022 when the Russia-Ukraine war disrupted supply chains and triggered higher energy prices, meant most of the inflation was imported. Domestically, a combination of higher production costs, weak transportation networks, and multiple indirect taxes compounded the high imported prices. Interest rates were

Table 3. Monetary policy decisions (2021–2023).

Meeting No.	MPC meeting dates	Effective date	BoG policy rate
98	January 26 – 29, 2021	01 Feb 2021	14.5
99	March 17 – 19, 2021	22 Mar 2021	14.5
100	May 26 – 28, 2021	31 May 2021	13.5
101	July 21 – 23, 2021	26 Jul 2021	13.5
102	September 22 – 24, 2021	27 Sep 2021	13.5
103	November 16 – 19, 2021	22 Nov 2021	14.5
104	January 25 – 28, 2022	31 Jan 2022	14.5
105	March 16 – 18, 2022	21 Mar 2022	17
106	May 18 – 20, 2022	23 May 2022	19
107	July 20 – 22, 2022	25 Jul 2022	19
107	August 17, 2022 (Emergency)	17 Aug 2022	22
108	September 20 – 23, 2022	06 Oct 2022	24.5
109	November 22 – 25, 2022	28 Nov 2022	27
110	January 22 – 25, 2023	30 Jan 2023	28
111	March 22 – 24, 2023	27 Mar 2023	29.5
112	May 17 – 19, 2023	22 May 2023	29.5
113	July 19 – 21, 2023	24 Jul 2023	30
114	September 19 – 22, 2023	25 Sep 2023	30
115	November 22 – 24, 2023	27 Nov 2023	30

Source: Bank of Ghana <https://www.bog.gov.gh/monetary-policy/>.

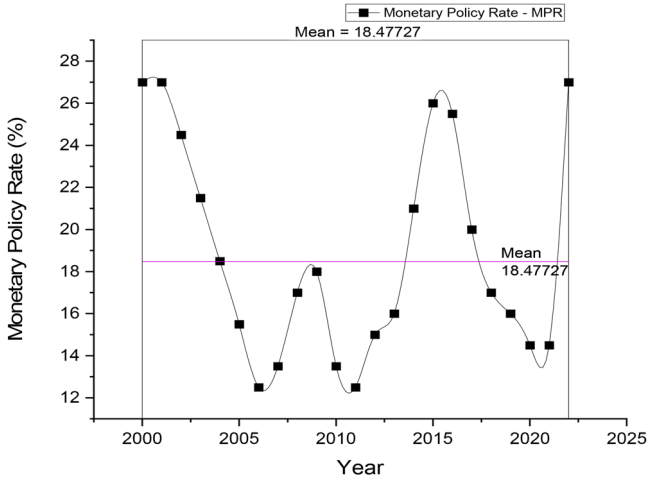


Figure 8. Monetary policy rates in Ghana (2000–2022). *Policy rates are those reported for the end of year in December.

Source: Author drawing from Bank of Ghana data <https://www.bog.gov.gh/economic-data/interest-rates/>.

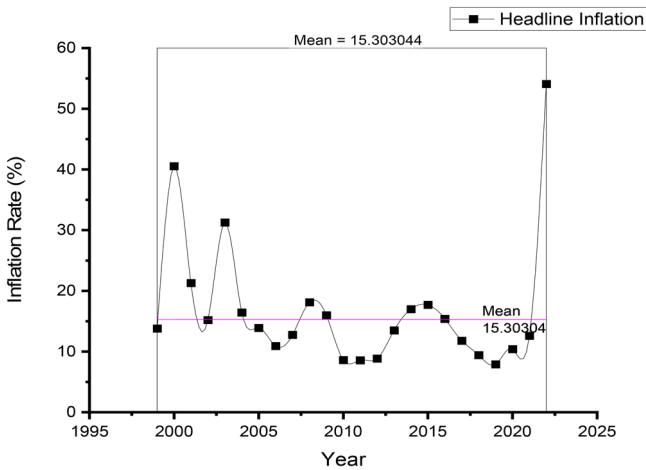


Figure 9. Headline inflation rate in Ghana (1999–2023). Source: Author drawing from Bank of Ghana data <https://www.bog.gov.gh/economic-data/time-series/>.

therefore an inappropriate tool for dealing with an inflation rate whose sources were largely structural and hardly a money supply problem.

Apart from failing to keep inflation within the target (which does not in any way, even if achieved, means consumers are paying less for products or services), policy rate increases contribute to the high average commercial bank lending rates as discussed in section two above. From Figure 10, it is evident that average commercial bank lending rates mirror those of the monetary policy rates in Figure 8. The decline in the MPR between 2000 and 2006 was accompanied by consistently decreasing commercial bank lending rates. Similarly, the policy rate hikes between 2021 and 2023 were followed by a more than 70% jump in lending between the same period

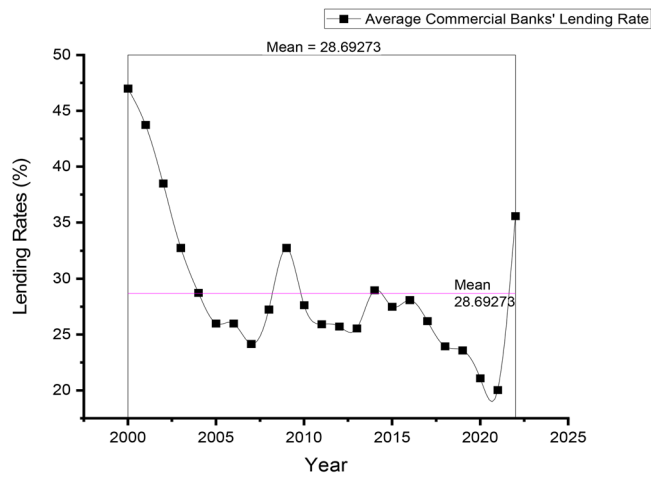


Figure 10. Commercial bank lending rates in Ghana (2000–2022). *Lending rates are those reported for the end of year in December.
Source: Author drawing from Bank of Ghana data <https://www.bog.gov.gh/economic-data/interest-rates/>.

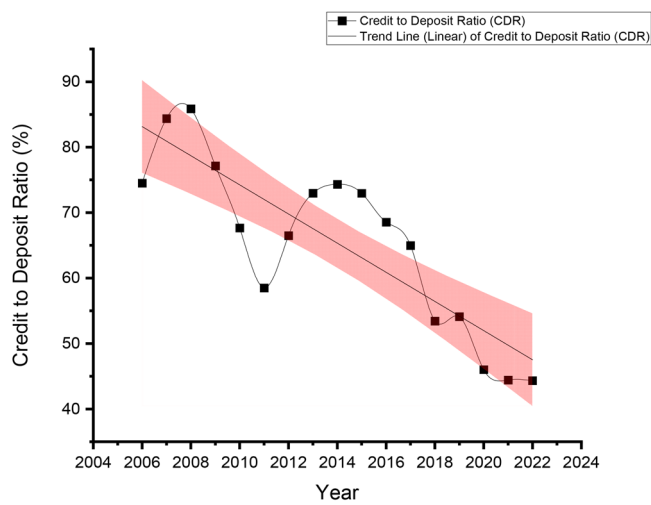


Figure 11. Credit to deposit ratio (2006–2023). Source: Author drawing from Bank of Ghana data <https://www.bog.gov.gh/economic-data/time-series/>.

(Figure 10). The MPR signals the cost of the central bank’s overnight lending to commercial banks. Commercial banks, in turn, factor this cost into the interest rates charged on loans to businesses and households. Therefore, raising central bank interest rates potentially pushes up borrowing costs (Kwakye, 2010) and would ultimately impair business productivity and or increase the cost of products.

Even though it is also assumed within the liberal financial policy that higher interest rates will attract more savings and induce investment as banks lend these savings out, there is little evidence of this interest rates-savings-investment nexus in Ghana. Credit to Deposit Ratios which show the proportions of banks’ deposits that

are lent out, have shown a negative trend since 2008 (Figure 11). From nearly 86% in 2008, the Credit to Deposit Ratio was less than 40% in April 2023. This implies banks lent less than half of the deposits they accumulated to private sector businesses. The fact that a reliance on interest rates to induce savings and raise investments has failed to produce substantial results is not a new phenomenon. Critics of financial liberalisation in the 1980s and 1990s in Africa warned that financial policies under structural adjustment did not support national development (see Mkandawire, 1999; Mkandawire & Soludo, 1998). Mkandawire (1999) in particular showed that interest rates failed to generate sufficient savings in countries like Ghana and Uganda. It is not surprising then that higher interest rates in Ghana in recent times have not correlated to increased savings from the public, especially given that real incomes continue to be eroded by inflation from structural, not monetary, factors.

4. Conclusion

The post-COVID debt crisis in Ghana and across several African countries has reignited debates about development financing. The literature on Ghana in particular has shown that its financial distress is not only rooted in external constraints, but also a structural dysfunction in the domestic economy. This paper has focused on extending that discourse, analysing the role of the financial system in financing domestic development. Its main aim has been to explain the extent to which the banking system has supported productive investments in the private sector.

Relying predominantly on central bank data on the sectoral distribution of bank credit and the conduct of monetary policy, I have argued that the operation of finance has not supported the real productive economy in Ghana. First, the data showed that commercial banks' lending to sectors such as agricultural and manufacturing has been in decline in the last 25 years. On the contrary, banks have shifted to more speculative and lucrative investments into government securities. Second, it is also evident that this pattern of dysfunction in bank lending has been aggravated by central bank monetary policy. In the pursuit of its inflation targeting monetary policy, the Bank of Ghana has more often than not raised its monetary policy rate to influence the money supply, suppress demand and as theorised, halt inflation. This focus on monetary stability has not only yielded few results, but it has also increased average commercial banks' lending rates and thus further suppressed credit to small and medium scale businesses. These findings raise concerns for a reform of financial policy in the immediate case of Ghana and across Africa where countries face similar dysfunctions in their financial systems. Three areas of financial reforms are discussed here.

Credit policy. Financial policy should be more focused on directing credit to private business development and especially supporting productive sectors of the economy. One specific way to do this would be a return to credit policies and the revitalisation of development banks. This could involve the deployment of policy instruments that affect both the demand and supply of credit as categorised by Bezemer et al. (2023). Government credit subsidies for agriculture and manufacturing, and the extension of loan maturities will attract SMEs to borrow from the banking sector. Similar to the credit policies of the Bank of Ghana in the 1960s to early 1980s, it may be necessary to return to the use of credit quotas. The Bank of Ghana could mandate commercial banks to lend a certain share of credit to agriculture and

manufacturing or alternatively limit the share of credit that goes into mortgage financing and other non-productive activities. Additionally, the reorganisation and resourcing of development banks such as the Agricultural Development Bank, the National Investment Bank, and Development Bank Ghana will facilitate long term financing for agricultural and industrial investments. It must however be cautioned that directed credit policies and development banks have suffered setbacks in the past. Particularly in the developmentalist agendas of the 1960s and 1970s, the operation of credit policy in Africa was criticised for fostering 'favouritism, cronyism and rent seeking' (Mkandawire, 1999, (p. 339). Politicians were often accused of supporting cronies to take state-subsidised credit for purposes other than the prioritised agricultural and industrial projects. In other instances, there was also the issue of high loan delinquency rates, and as governments allocated more funds into development financing, the increased state spending created budget deficits. In addition, unlike the South Korean and Japanese cases cited earlier in this paper, credit policies have not always been pursued under a stated development plan or industrial policy. Therefore, it is important that these lessons of early post-independence developmentalist attempts are taken into account so that directed credit policies are guided by clearly defined criteria, proper monitoring, and a strong focus on SMEs in agriculture and industry.

Reform of Central Banking. The current practice of independent central banking and a strict focus on monetary stability has not promoted coordination between government economic policy agenda and the organisation and operation of the financial system in Ghana. Inflation-targeting in particular has shown itself to be counter-productive given that inflationary pressure is more often driven by structural and not monetary issues in Ghana. A review of the Bank of Ghana Act is necessary, to redirect the central bank to more developmentalist policy pursuits. Inflation-targeting has often led to raising interest rates and thus the cost of credit. Under a reformed central bank that focuses more on propelling transformative growth, such frequent interest rate hikes can be avoided. Additionally, a reformed Bank of Ghana would effectively monitor the credit granting practices of commercial banks in line with any directed credit policy that government institutes. Again, it is important that the regulatory regime clearly defines the limits of coordination between the central bank and government to avoid abuse of monetary authority by politicians. While it is important that the central bank should support government's development agenda, including where necessary central bank financing of the government, it is crucial that parliament legislates the conditions, mode and limit to which the Bank of Ghana can finance government's budget. If this is not done, excessive central bank financing has the potential to promote financial indiscipline, hyperinflation, and corruption.

Indigenous bank ownership. Policy reforms should equally encourage indigenous participation in the banking sector. The new minimum capital requirement of 400-million Ghana Cedis applied to all banks does not promote local participation in the banking sector. Lower minimum capital requirements for indigenous and relatively new banks would support Ghanaian investors who wish to establish banks. Given that indigenous banks tend to lend more to SMEs, this should, in the long run, contribute to addressing the credit repression that currently persists in the Ghanaian banking system. Indigenous banks should, however, be subjected to rigorous regulatory standards so they can ultimately become competitive and not perpetually rely on government support to stay viable.

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Data Availability Statement

No separate dataset is available. Data sources are as indicated in the graphs, tables, and appendices.

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