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High Interest Rate in Ghana: An Empirical Study of Societe Generale Ghana [SG-GH]

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Abstract: *The issue of high interest rates in Ghana has raised concerned by the Government of Ghana, businesses, Commercial banks, Bank of Ghana, and foreign investors alike. The study focused on a sole Ghanaian bank as the case study. Societe Generale Ghana (SG-GH) is a subsidiary of a French multinational bank. The study followed a narrative enquiry research strategy and descriptive research design. The target population was Management personnel and loan customers of SG-GH. Interview technique was the research instrument used. The findings show that the reasons for high interest rates are high Monetary Policy Rate, high cost and risk of doing business, high cost of borrowing funds, and high default rate. It is recommended that commercial banks should focus their strategies on sourcing for cheaper funds so as to enable them offer attractive interest rates on their loan products; the Bank of Ghana monetary should adopt stringent measures to controlled its policy rate because it informs the interest rates to be applied by banks; and the Ghana Government should work on building a more robust economy where the manufacturing industry is vibrantly functioning to promote high exports and low imports.*

Keywords: *Interest rate, Ghana, Bank of Ghana, Societe Generale Ghana, etc*

I. Introduction

Over the past recent years, bank interest rates have become a challenging issue in Ghana particularly when viewed against the average interest rate in sub-Saharan Africa. Bawumia (2008) did some research on this subject but the end appears inconclusive. This research however seeks to identify the shortcomings in the earlier researches and would come out with suggestions and recommendations based on empirical evidence. Banking was introduced into Ghana by Elder Dempster Lines in the late 1890s and the first bank to start operations was the Bank of British West Africa Limited (BBWA) now known as Standard Chartered Bank Ghana Limited (SCB). It was followed by another British bank, Barclays Bank DCO (Dominion, Colonies and Overseas) now known as Barclays Bank of Ghana Limited. Since then there have been other banks both local and expatriate; the banking industry now stands at 32 commercial banks, 137 rural and community banks, and 58 non-banking institutions (Bank of Ghana, 2016).Statutory legislations have been enacted since 1935 to regulate the conduct of banking in Ghana of which the Bank of Ghana (BoG) plays regulatory and supervisory role. BoG has the primary responsibility of formulating the quarterly Monetary Policies and also the Policy Rates which form the basis upon which banks determine their base rates. It is noted however that in the 1970s and 80s when there was severe financial shallowing in Ghana, the BoG adopted some form of socialist banking system whereby banks were restricted to granting credits according to government’s central plan (Brownbridge *et al*., 1998). BOG was responsible for fixing bank interest rates across board but following financial sector reformation encouraged by International Monetary Fund (IMF), banks were allowed to fix their own base rates and the spreads. This was in sharp contrast to the repressive monetary regime adopted by the BoG in imposing credit ceilings and credit rationing on banks in the seventies and early eighties.

Recently, there has been concern by various stakeholders over high interest rates in Ghana. Parliamentarians describe the situation as alarming and call on the industry regulator, Bank of Ghana, to act in order to put the interest rates under control (MOFEP, 2015). The policy think tank, Institute of Economic Affairs (IEA), blames industry players such as government, borrowers, lenders, bank, businesses, and regulators for the sky rocketing rates in the country. The government is cited for bad macroeconomic management while the Bank of Ghana is cited for poor regulatory mechanisms. The banks caution the government to deal with inflation, monetary policy rate and cut down borrowing from local banks (The Africa Report, 2015). Societe Generale Ghana (SG-GH). SG-GH is a foreign owned Ghanaian bank which until 2013 had merged with formerly Social Security Bank (SSB). The bank is part of a larger bank, Societe Generale Group, which is a French bank with 17 subsidiaries in Africa. The bank has a rich historical background. It started as Security

Guarantee Trust Limited (SGTL) in 1975 with sole ownership by Social Security & National Insurance (SSNIT), and later changed its name to Social Security Bank (SSB) Limited when it acquired universal banking license from Bank of Ghana (BoG) to operate as a commercial bank. In 1994, a merger between the bank and National Savings and Credit Bank (NSCB) took place under a World Bank program. Later, Social Security & National Insurance Trust (SSNIT) divested its 20% stake in the bank and transformed it into a public limited liability company, therefore being listed on the Ghana Stock Exchange. During the last decade, Social Security Bank (SSB) underwent a lot of transformations. First, it became a target for a merger with the French multinational bank, Societe Generale (SG). The merger was concluded in 2004 after initial acquisition of 51% controlling stake in the bank by Societe Generale. The bank was therefore rebranded as Social Security Bank (SSB) – Societe Generale (SG), abbreviated SSB-SG. In 2013, SSB-SG now became Societe Generale Ghana (SG-GH) after further negotiations with the board of directors to rebrand the bank to conform with the group name, Societe Generale.

1.1 Research Rationale

Interest rate spreads are challenging issues which industrialists and businessmen in Ghana find difficult to accommodate. The research being undertaken sets out to find out the modalities as well as the methodology used by Ghanaian commercial banks in arriving at lending rates which consumers consider high compared to industry average in the sub-Saharan African countries. This research will find out whether there can be alternatives to reducing the rates to assuage consumers particularly those in industry and manufacturing sectors. The scenarios indicated above make it interesting to conduct the research to unearth the seeming cloud surrounding bank interest rates which to all intents and purposes, posed financial challenges to industries and businesses.

1.2 Research Questions

Stemming from the problem stated above, the following research questions are posed:

1. What factors determine the interest rates in Ghana?
2. What are the reasons for high interest rate in Ghana?
3. How are interest rates in Ghana compared with interest rates in English Speaking countries in the sub-sahara region?

II. Brief Literature Review

Mishkin (1981) discusses the movement of real interest rate over time. He advances that real interest rate is affected by monetary policy conducted by the central bank. The real interest rate then affects business and consumer's investment decisions and hence aggregate demand. Real interest rates serve as fundamentals for explaining various macroeconomic phenomenon such as business cycles, and saving consumption decisions. This has made study of real interest rate is great interest on the part of economic researchers.

2.1 Expectation Theory of Interest Rate

The expectation theory places much emphasis on the expected values of future spot rates or holding period returns. The theory postulates that bonds are priced so that the implied forward rates are equal to the expected spot rates. The theory holds only if the following assumptions are made: the return on holding a long term bond to maturity is equal to the expected return on repeated investment in a series of the short term bonds; the expected return rate over the next holding period is the same for bonds of all maturities (Cox et al, 1985). The expectation theory implies long-term interest rates are the averages of the expected short-term interest rate in the future which holds as long as market expectations of future interest rates remain constant (Shikano, 1985).

2.2 Liquidity preference theory of Interest Rate

The liquidity preference theory pioneered by Hicks (1946) support the expectation theories but acknowledge the effects of risk preferences of market participants. The introduction of risk aversion will cause forward rates to be higher than expected spot rates as suggested by the expectation theory. The extra interest rate over the expected spot rate is the premium to potential investors for holding long term riskier securities (Cox et al, 1985). The liquidity preference theory is the variation of Hicks' expectation theory. They argue that the forward rates are biased upward by a liquidity premium (Soltow & Luckett, 1975).

2.3 Market segmentation theory of Interest Rate

Advanced by Culbertson (1957) and other researchers, this theory postulates that investors have strong maturity preferences and therefore debt instruments of different maturities trade in separate and different markets. This means the different classes of maturity are less affected by what happens in each market. The interest rates of a maturity class are determined by its own demand and supply for that market (Cox et al, 1985).

2.4 Preferred habitat theory of Interest Rate

Developed by Modigliani & Sutch (1966), the preferred habitat theory builds upon the market segmentation theory. The theory provides plausible rationale for term premiums rather than a causal explanation (Cox et al, 1985).

III. Research Methodology

3.1 Research Design

Three research designs are commonly known. These are descriptive research, exploratory research and explanatory research. Descriptive research provides a vivid description of the person, events and situations as they are without exaggeration (Saunders et al., 2012). Exploratory research investigates into new phenomenon in order to get better insights on the problem (Saunders et al., 2012). Explanatory research seeks to establish the causes and effects of the problem (Saunders et al. 2012). The study adopted descriptive research design and narrative inquiry because the researcher opted to use this kind of research considering the desire of the researcher to obtain first hand data from the respondents

3.2 Population and Sampling

The target population of the study consisted of Management, staff and loan customers of Societe Generale Ghana Limited (SGGH). The bank has Management team of 15 members, and SMEs loan customer base of 61 875 (Societe Generale Ghana Limited, 2015). The study employed probability sampling method to select the target sample size which statistically generalizes observations about the population. The technique of simple random probability sampling was employed in selecting the sample size. The random sampling technique ensures that every member of the target group has equal chance of being selected. So out of a population size of 15 Senior Management personnel of Societe Generale Ghana Limited, 12 were interviewed and out of 370 SMEs loan customers, 100 were interviewed.

3.3 Research Instrument

The research instrument used is interviews. This method is deemed appropriate based on the research topic and what the researcher sought to find. The study investigates the reasons for high interest rates charged by Ghanaian commercial banks comparatively to their counterparts in the sub-sahara African region.

3.4 Data Analysis

Data were collected by means of interviews. Management, staff and loan customers were interviewed following the interview guide designed for each category of respondents. An introductory letter was sent to Management of SGGH requesting to conduct an interview with Management and employee of SGGH. Management agreed and the interviews were conducted. Customers were informed about the purpose of the study and those who accepted were interviewed. The interview data were transcribed on paper and analyzed to find out the reasons for higher interest rate charged by Ghanaian banks.

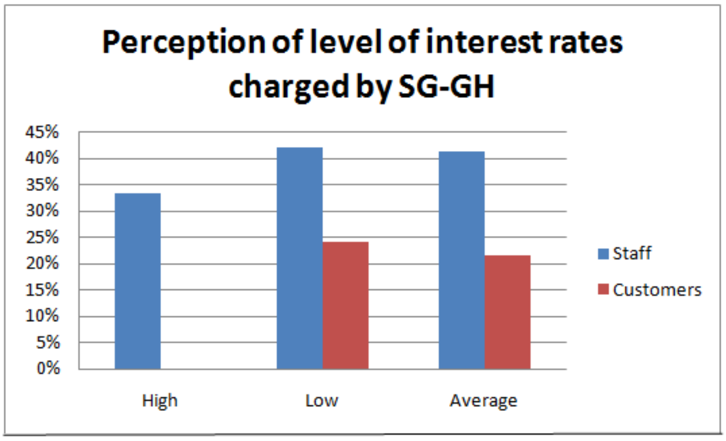
IV. Result and Analysis

Two groups of people were interviewed: Staff of SG-GH and customers of SG-GH. The interview responses were transcribed before analysis was performed. Here, qualitative analysis was performed to find out the reasons for high interest rates on credit/loan products in Ghana.

4.1 Comparative Analysis of Interest Rates in the Sub-Sahara Region

Figure 4.1 and Table 4.2 summarize the frequency of responses by staff and customer interviewees of SG-GH on perception of level of interest rates charged by SG-GH and banks in Ghana. Total interviewees were 112 distributed into 12 staff interviewees and 100 customer interviewees. Figure 4.1 shows the frequency distribution of staff and customer interviewees on the perception of level of interest rates charged by SG-GH. For staff interviewees, 4 out of 12 interviewees representing 33.30% perceive the level of interest rates charged by SG-GH to be high while 8 out of 12 interviewees representing 66.70% perceive the level of interest rates charged by SG-GH to on the average. For customer interviewees, 42 out of 100 interviewees representing 100% perceive the level of interest rates charged by SG-GH to be high; 24 out of 100 interviewees representing 24% perceive the level of interest rates charged by SG-GH to low; while 34 out of 100 interviewees representing 34% perceive the level of interest rate charged by SG-GH to on the average. Out of total 112 interviewees, 41.07% perceive the level of interest rates charged by SG-GH to be high; 21.42% perceive the level of interest rates charged by SG-GH to be low; while 37.50% perceive the level of interest rates charged by SG-GH to be on the average. The findings reveals that though majority of staff interviewees perceive the level of interest rate charged by SG-GH to be on the average while majority of customer interviewees perceive the level of interest rate charged by SG-GH to be high, together both staff and customers interviewees perceive the level of interest rates charged by SG-GH to be high.

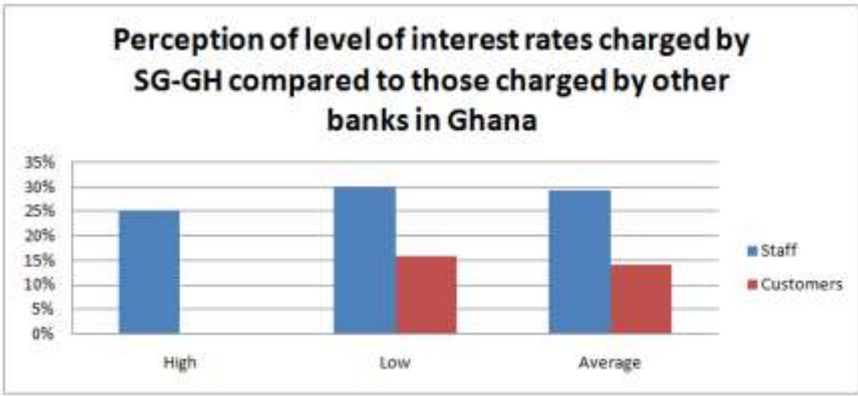
Figure 4.4 Perception of level of interest rates charged by SG-GH



Source: Field Survey, 2016

Figure 4.2 shows the frequency distribution of staff and customer interviewees on the perception of level of interest rates charged by SG-GH compared to those charged by other banks in Ghana. For staff interviewees, 3 out of 12 interviewees representing 25.00% perceive the level of interest rates charged by SG-GH to be high comparative to those of competitors while 9 out of 12 interviewees representing 75.00% perceive the level of interest rates charged by SG-GH to be on the average comparative to those of competitors. For customer interviewees, 30 out of 100 interviewees representing 30% perceive the level of interest rates charged by SG-GH to be high comparative to those of competitors; 16 out of 100 interviewees representing 16% perceive the level of interest rates charged by SG-GH to low comparative to those of competitors; while 54 out of 100 interviewees representing 54% perceive the level of interest rate charged by SG-GH to on the average comparative to those of competitors. Out of total 112 interviewees, 29.46% perceive the level of interest rates charged by SG-GH to be high comparative to those of competitors; 14.28% perceive the level of interest rates charged by SG-GH to be low comparative to those of competitors; while 56.25% perceive the level of interest rates charged by SG-GH to be on the average comparative to those of competitors. The findings reveals that both staff interviewees and customer interviewees perceive the level of interest rate charged by SG-GH to be on the average comparative to those of competitors.

Figure 4.2 Perception of level of interest rates charged by SG-GH compared to those charged by other banks in Ghana

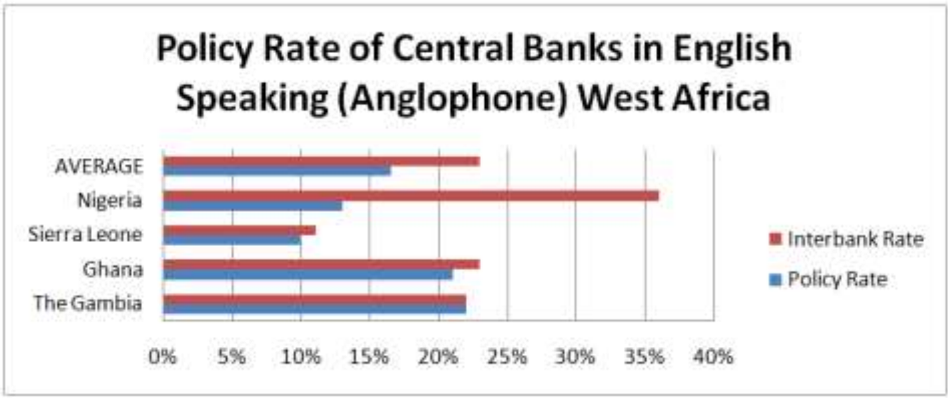


Source: Field Survey, 2016

Figure 4.3 shows the policy rate of central banks in English Speaking Sub Sahara Africa. The policy rates of four Anglophone countries are presented in the Figure 4.3. The countries are Ghana, The Gambia, Nigeria and Sierra Leone. As shown in Figure 4.3 and as at February 26, 2015, the policy rates of central bank of each of the four countries are Ghana (21.00%); The Gambia (22%); Nigeria (13%); and Sierra Leone (10.00%). From our observation, The Gambia has the highest central bank policy rate (22.00%), followed by Ghana (21.00%), then Nigeria (13.00%) and lastly Sierra Leone (10.00%). On average the policy rate in all these four countries is 16.50% [(22%+21%+13%+10%)/4]. With such high policy rates in the double digits, commercial banks in Ghana are compelled to charge higher interest rates on lending products. This confirms the perception of both staff and customer respondents that interest rates in Ghana are high.

Figure 4.3 again shows the interbank interest rates in the four selected English speaking West African countries. Interbank interest rates are the interest rate that commercial banks offer to lend among themselves. As shown in Figure 4.3 and as at February 26, 2015, the interbank interest rate in Ghana is 23.00%, in The Gambia is 22.00%, in Nigeria is 36.00%, and in Sierra Leone is 11.00%. This observation shows that Nigeria (36%) has the highest interbank interest, followed by Ghana (23%), then The Gambia (22%), and lastly Sierra Leone (11%). The next section of this chapter would explore reasons for such high interest rates and factor determinants of the level of interest rates.

Figure 4.3 Policy Rate of Central Banks in English Speaking (Anglophone) West Afric



Source: Ecobank Research, Middle Africa Market Update, February 26, 2015

4.1.1 Loans/credit products and corresponding interest rates offered by Societe Generale Ghana (SG-GH)

Interviewees were asked to state the loan products offered by SG-GH of which they are aware. The loan products stated can be categorized into consumer products and corporate products. Consumer loan products comprise Salaried Relief credit; car loans, home loans, educational loans, student loans; Pensioners loan, and many more. Corporate loan products comprise Institutional loan; Business loans, Corporate & SMEs loans, Finance leasing; Overdraft facility; Leasing, Factoring; Interim payment certificates (IPC); Discounting factoring; Revolving advances, syndication loans; Cheque discount facilities; and many more.

4.1.2 Interest rates on loan/credit products offered by SG-GH

Interviewees were asked to state a range of interest charged on loan products of which they were aware. Table 4.7 shows the various types of loan products and their corresponding range of interest rates offered by SG-GH. Table 4.7 presents range of interest rates from the perspective of staff respondents and customer respondents. From the table, the lowest interest rate on any loan product is 21% and the highest interest rate could be 45%.

Table 4.1 Range of interest rate on these loan/credit products offered by SG-GH

Loan/Credit Products	**Staff Respondents Range of interest rate (%)**	**Customer Respondents Range of interest rate (%)**
Relief credit	28.00-30.00%	21.00-30.00%
Institutional loan	23.00%-28.00%	21.00-30.00%
Overdraft	26.00% -32.50%	28.00-36.00%
Financial lease	28.85% -32.50%	28.00-45.00%
Cheque discounting	27.00 – 32.50 %	
Business loans	32.00%	
Staff loan	26.00 – 28.00%	
Retail institutional loan	16.50 – 28.00%	
Interest payment certificate	28.00 – 32.50%	21.80% - 32.50%
Equipment finance lease	28.00 – 32.50%	
Commercial loan secure	25.50 – 32.50%	
Commercial unsecure loan	25.60 – 34.95%	
Advance (Ghana Cedis)	24.60 – 32.50%	
Cash covered Loans	24.00 – 32.00%	
Educational Loans	24.00 – 30.00%	
Salary credit	30.00%	
Personal loan	23.00 – 28%	24-30
Auto Loan		21.80% - 45.00%
Home Loan		40.00%

Source: Field Survey, 2016

4.2 Factors that determine the level of Interest Rates in Ghana
Interviewees were asked their opinion on what factors account for the level of interest rates offered by SG-GH and other commercial banks in Ghana.
4.2.1 Factors accounting for the level of interest rates charged by Societe Generale Ghana (SG-GH)
Interviewees' opinions were sought on the factors determinants of interest rates charged by SG-GH. Interviewees stated the following factors:

- Bank of Ghana Policy rate
- SG-GH's operating cost
- SG-GH's profit margins
- Cost of funds
- Treasury bill rate
- Inflation rate
- Default rate
- Risk exposure on lending
- Economic factors in the nation
- Government policies
- Monetary polities

4.2.2 Factors accounting for the level of interest rates charged by banks in Ghana
Interviewees' opinions were sought on the factors determinants of interest rates charged by banks in Ghana. Interviewees stated the following factors:

- Inflation rate
- Exchange rate
- Policy rate
- Operating cost
- Cost of funds
- Default rate
- The Monetary Policy rate of the central bank (BOG)
- Profit margin based on return in equity (ROE)
- Economic factors in the nation
- Monetary policies
- Demand and supply of funds
- General economic condition
- International monetary Fund (IMF) policies

4.3 Reasons for High Interest Rate in Ghana
This section presents the findings on reasons for high interest rates in Ghana. Interviewees were asked their opinion on reasons for high interest rates in Ghana.
4.3.1 Why interest rates are at the level charged by commercial banks in Ghana
Interviewees' opinions were sought on the reasons for high interest rates charged commercial banks in Ghana. Interviewees stated the following reasons:

- High default rate for loans granted
- Lack of titled collaterals to provide as security
- High provision for bad debts
- High profit margin based on rate of equity (ROE) demanded by shareholders
- High cost of borrowing by commercial banks

Why interest rates are at the level charged by Societe Generale (SG-GH)?
Interviewees' opinions were sought on the reasons for high interest rates charged by SG-GH. Interviewees stated the following reasons:

- Economic indicators such as inflation and exchange rate
- Bank of Ghana prime rate affect interest rate charged by commercial banks. When the prime rate rise, interest rates also goes and when the prime rate falls, interest rates also falls
- High risk of doing business in Ghana
- High cost of doing business in Ghana
- High cost of borrowing funds
- High default rate

- Due to market segment risk. For example, SME sector has high default rate so attracts high interest rate compared to corporate or retail

4.3.2 Ways of dealing with the issue of high interest rates in Ghana
Interviewees' opinions were sought on the ways of dealing with the issue of high interest rates in Ghana. Interviewees stated the following:

- A robust economy which has the manufacturing industry vibrantly working will ensure high exports and low imports. This will boost the country's foreign exchange earnings. There will therefore be adequate foreign exchange and for the reason exchange rates will be lower and stable. Increased production will also ensure low inflation. Interest rates will subsequently fall.
- By reducing the inflation rate hence improving the time value of money
- Appreciation of cedi can bring stability importing less and exporting more
- Government of Bank must reduce borrowing from the public
- This can happen if government reduces expenditure
- Banks need to have access to cheaper funds
- Well structured facilities to ensure borrowers pay on time
- Credit reference Bureau should be strengthened to make information on borrowers available to banks to enable them to give facilities to only credit worthy borrowers
- The economy should be improved and inflation reduced drastically
- Bank of Ghana monetary policy committee rates should be controlled because it informs the interest rates to be applied by banks
- If there is an issue of high interest rate in Ghana, dealing with this will require lowering the variables or determinants of the interest rate. Reduction in the high risk profile of customers, increasing monetary of exposures, encouraging more secured exposure.
- It can be done by the Bank of Ghana reducing the base rate
- High interest rate in Ghana can be dealt with by first appreciating the local currency (Ghana cedis) and also celebrating inflation rate.
- Government should pump money in to the system that is the country so that people will have enough money. When people have enough money the banks would encourage the save and invest and if the rate at which people invest and save is high their rates will be low
- Borrowers should be credit worthy to reduce risk on banks factor in risk element to determine rates

V. Discussion of Findings

Irving Fisher (1930) defines interest rate as the rates on loans which are free from risk.Miskin (1981) stresses the critical role of interest rate in macroeconomics. He further acknowledges that monetary policy affects the real interest rate which in turn impact on business and consumers' investment decisions and aggregate demand. The findings of the study support Miskin (1981) assertion that monetary policy affects the level of interest rate. Fisher (1930) model of interest rate expresses the influence of inflation rate in the determination of nominal interest rate. This is supported by the findings on determinants of level of interest rate in Ghana which interviewees stated that inflation rate is a factor.Miskin (1981) further illustrates the influence of money supply in the determination of real interest rate. This assertion is also supported by the findings of the study which reveals that monetary policies by the Central bank of Ghana influence the level of interest rates in Ghana.In an open economy, Sebastian & Khan (1985) demonstrates the introduction of a new variable, Change in exchange rate, as additional factor in determining Nominal interest rate. This assertion is supported by the findings of the study which reveals that interviewees stated exchange rate as an influencing factor in the determination of the level of interest rate in Ghana.Wijnbergen (1983) explains that the reason for high interest rates in less developed countries is due to policy advice recommended to these countries. Policy advisors who are development economists are of the opinion that higher time deposit rate will increase saving rate (McKinnon, 1973 and Shaw, 1973) which in turn will cause influx of deposits into commercial banks (McKinnon, 1973). The findings of the study support this theory since interviewees blame the high interest rates prevailing in Ghana on policies imposed by International Monetary Fund (IMF) on the Government of Ghana.

VI. Conclusion

In 2011, Ghana was adjudged the fastest growing emerging economy in the world. Despite this tremendous economic achievement, the country has been faced with double digits inflation and consequently high interest rates. The issue of high interest rates has characterized the Ghanaian economy and most countries in Sub Sahara Africa. What has been the reason behind this phenomenon has been the discussion of this study. In monetary economics theories, interest rates are linked to inflationary tendencies which are dependent upon monetary policies implemented by the central bank of the country. Yet other factors play indirect influence in determining the level of interest rates. These could be general economic condition, exchange rate, central bank policy (prime) rate, and financial market conditions. The outcome of this study makes room for future studies on the issues of high interest rates in emerging and developing economies. It is expected that further studies would be undertaken to understand the underlying factors that influence the interest rates in less developed economies. Though the analysis employed in this study was qualitative, it is often required a quantitative approach to explaining the justified level of interest rates. The study provides useful insight into factors accounting for high interest rate in Ghana. The findings would guide the Bank of Ghana in conducting monetary policies to reduce the level of inflation and hence interest rates. The findings would further guide commercial banks in adopting strategies to attract cheaper funds which could then enable them to reduce the interest offered on loan products to clients.

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