CHANGING LENDING PATTERNS IN SUB-SAHARAN AFRICA – FINANCIAL DEEPENING OR FINANCIALISATION?

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RESEARCH FOCUS & PURPOSE

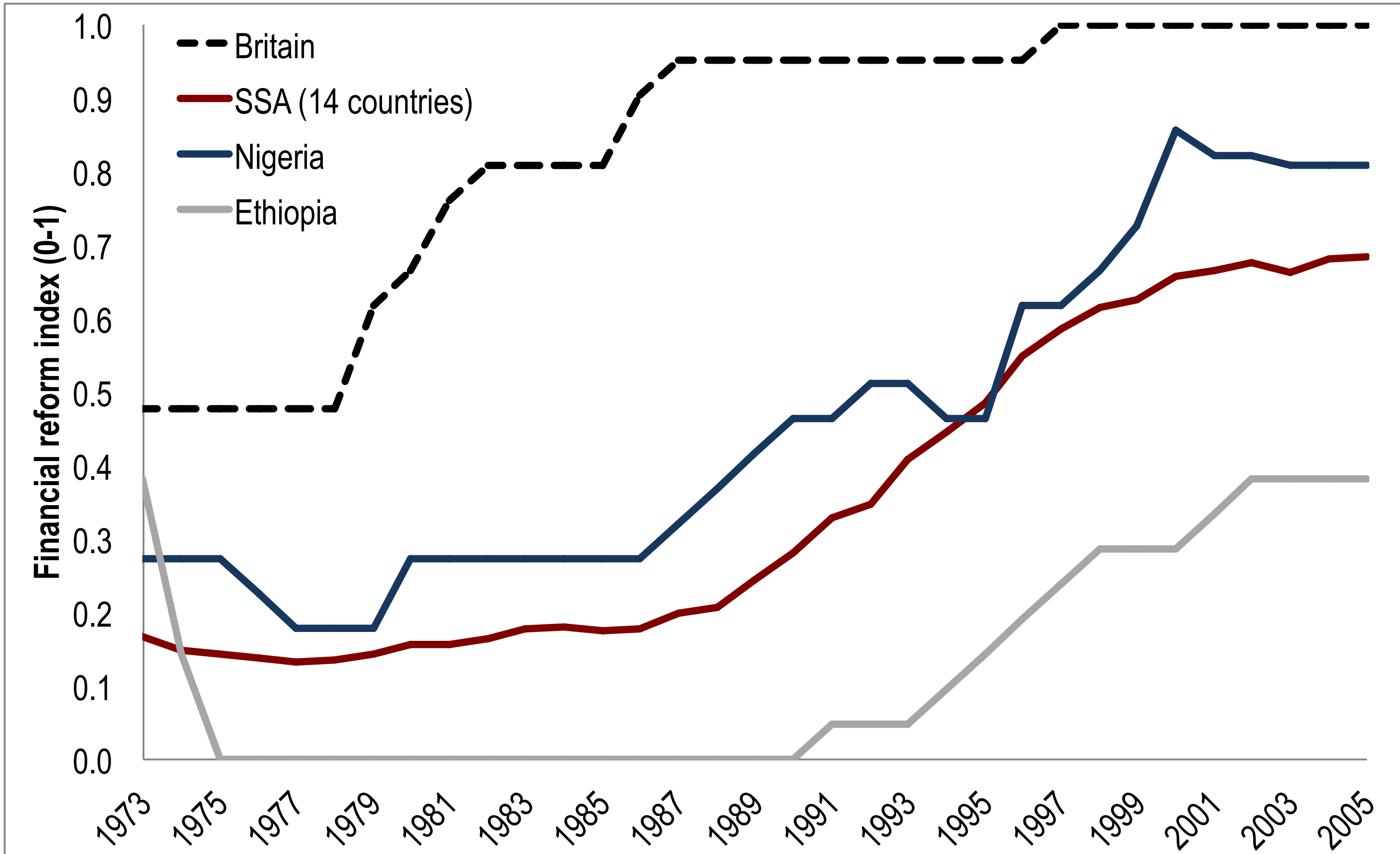
Over the past decades financial deepening – as measured by private-sector credit – has gained pace in many SSA countries. While financial deepening proponents claim that additional credit will spur growth an important question is which sectors bank credit supports. Some types of credit might induce financial fragility.

FINANCIAL DEVELOPMENT IN SSA – A SUCCESS STORY?

Recent optimism about financial development in SSA.

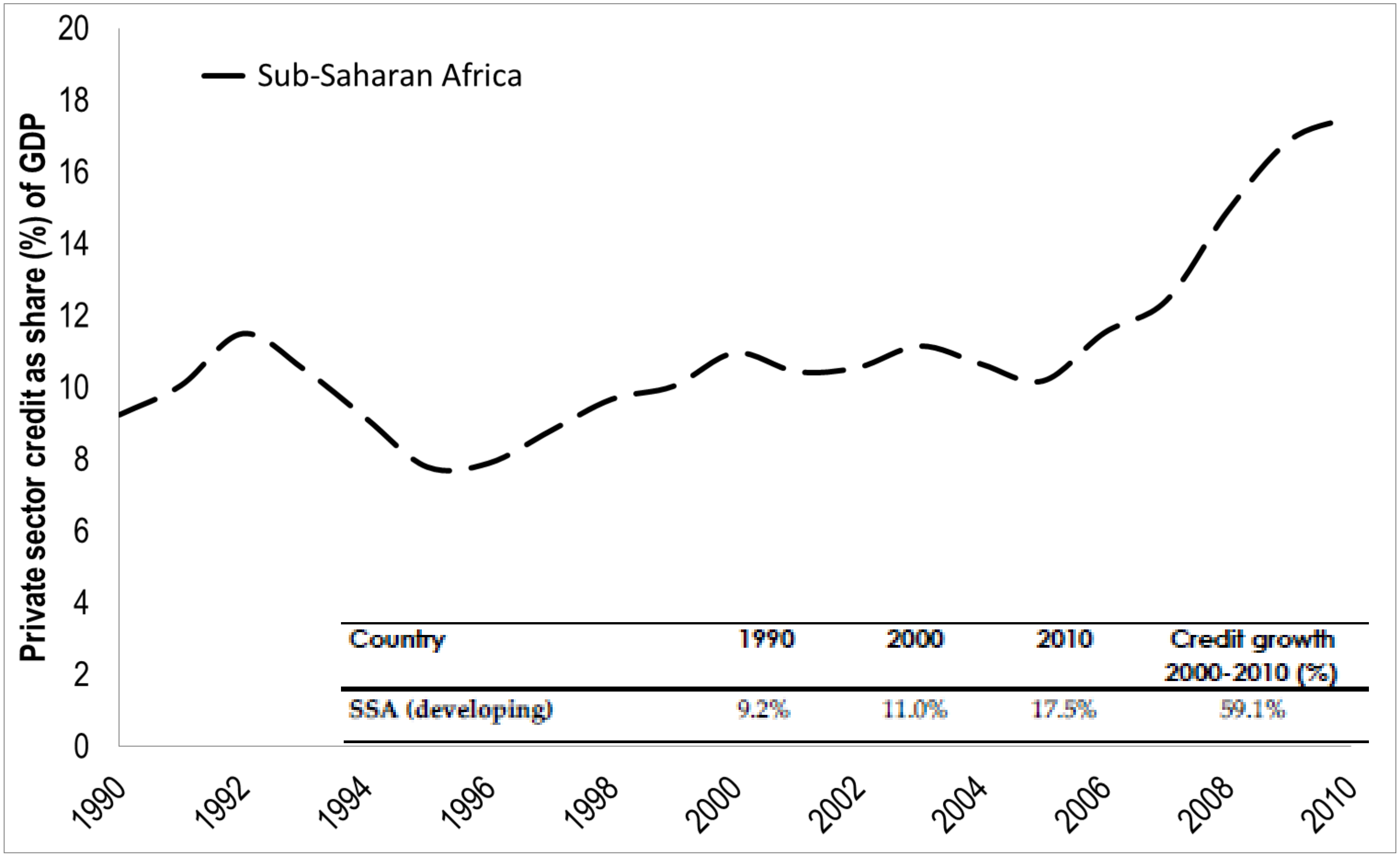
- Financial liberalisation has taken place since 1990s
- Financial deepening has progressed
- While financial systems in SSA have been resilient to crisis over the past decade (exception: Nigeria in 2009-10, Laeven & Valencia, 2008, 2012).
- Versus: critical literature on financialisation!

FINANCIAL REFORM INDEX



Source: Abiade et al., 2008.

FINANCIAL DEEPENING IN SSA



Country	1990	2000	2010	Credit growth 2000-2010 (%)
SSA (developing)	9.2%	11.0%	17.5%	59.1%

Source: World Bank.

FINANCIAL DEEPENING IN THEORY

Rational for liberalisation: regulation is financially 'repressive' (Shaw 1973, McKinnon 1973).

Financial development will result in growth (King & Levine 1993, Levine 2005).

How?

Hypothesis 1: Saving will increase → **investment** increases

- rise in credit volume: Shaw 1973
- rise in self-financed investment: McKinnon 1973

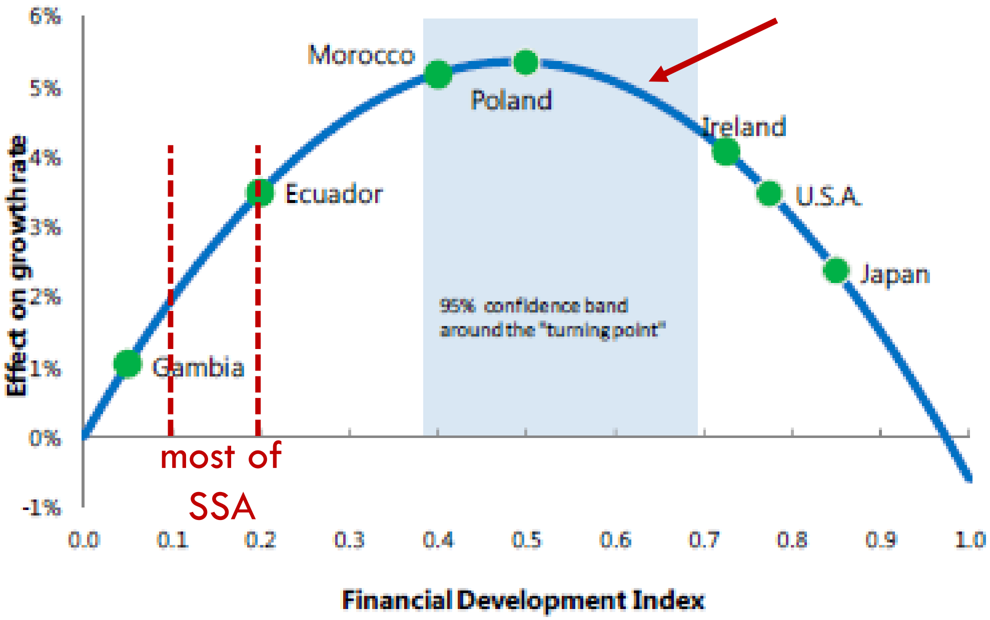
Hypothesis 2: Credit will be allocated better → **productivity** increases

Hypothesis 1 doubtful: **for SSA effect of financial liberalisation on financial development was negative** (Hamid Rashid, UNDESA, 2013)

FINANCIAL DEEPENING & POLICY

The IMF's framework: Financial deepening impact on growth

South Africa



Has the IMF come around to acknowledge financialisation?

IMF, 2015.

FINANCIAL DEEPENING & POLICY

Does private credit extension contribute towards structural transformation in countries that have experienced fast growth in credit volumes?

More detailed and disaggregated country level data (Central Banks, national statistics agencies).

We have collected the data across a dozen countries which experienced fast financial deepening (Griffith-Jones & Karwowski, 2013):

Angola, Benin, Malawi, Mali, Niger, Nigeria, Sao Tome and Principe, Sierra Leone, Sudan, Swaziland, Tanzania and Uganda.

Development matters rather than growth:

- Hypothesis 2 of the McKinnon-Shaw story: more productive credit

TYPOLOGY OF CREDIT

Impact of credit varies depending on its use:

- Impact on **productivity** (e.g. linkages, employment, knowledge/skills creation)
- **Manufacturing** has stronger productivity impact (Kaldor, Amsden, Rodrik, Page)
- Agro-processing also has productive potential…
- …and high-skill services or tertiary sector activities providing infrastructure-related services (e.g. communication)
- Household credit might support domestic demand, but raises issues of debt sustainability and might weaken the external balance; evidence that it slows down growth (Barba and Pivetti, 2008, OECD, 2012, Jappelli et al., 2013)
- But credit might be also used for financial market speculation (see Nigeria's case: 'other' credit)
- Unproductive credit: real estate and asset price inflation (Bezemer et al. 2014)

TYPOLOGY OF CREDIT

BORROWER	ADVANCED ECONOMIES			DEVELOPING ECONOMIES	
	Borrower / credit purpose	**Macroeconomic impact**	**Productive potential**	**Borrower / credit purpose**	**Transformative potential**
Businesses	Non-financial	Growth	yes	Primary sector	Limited transformative potential
				Secondary sector	Highest transformative potential, especially in manufacturing
	Financial	Asset market inflation	no	Tertiary sector	Least transformative potential (with exception of few high-tech sectors)
Households	Consumption	Higher crisis probability and weak for external balance	no	Consumption	Demand generating, but potentially weakening for external balance
	Mortgage	Asset market inflation	no	Mortgage	Limited, with some potential to inflate capital city real estate prices

TYPES OF CREDIT

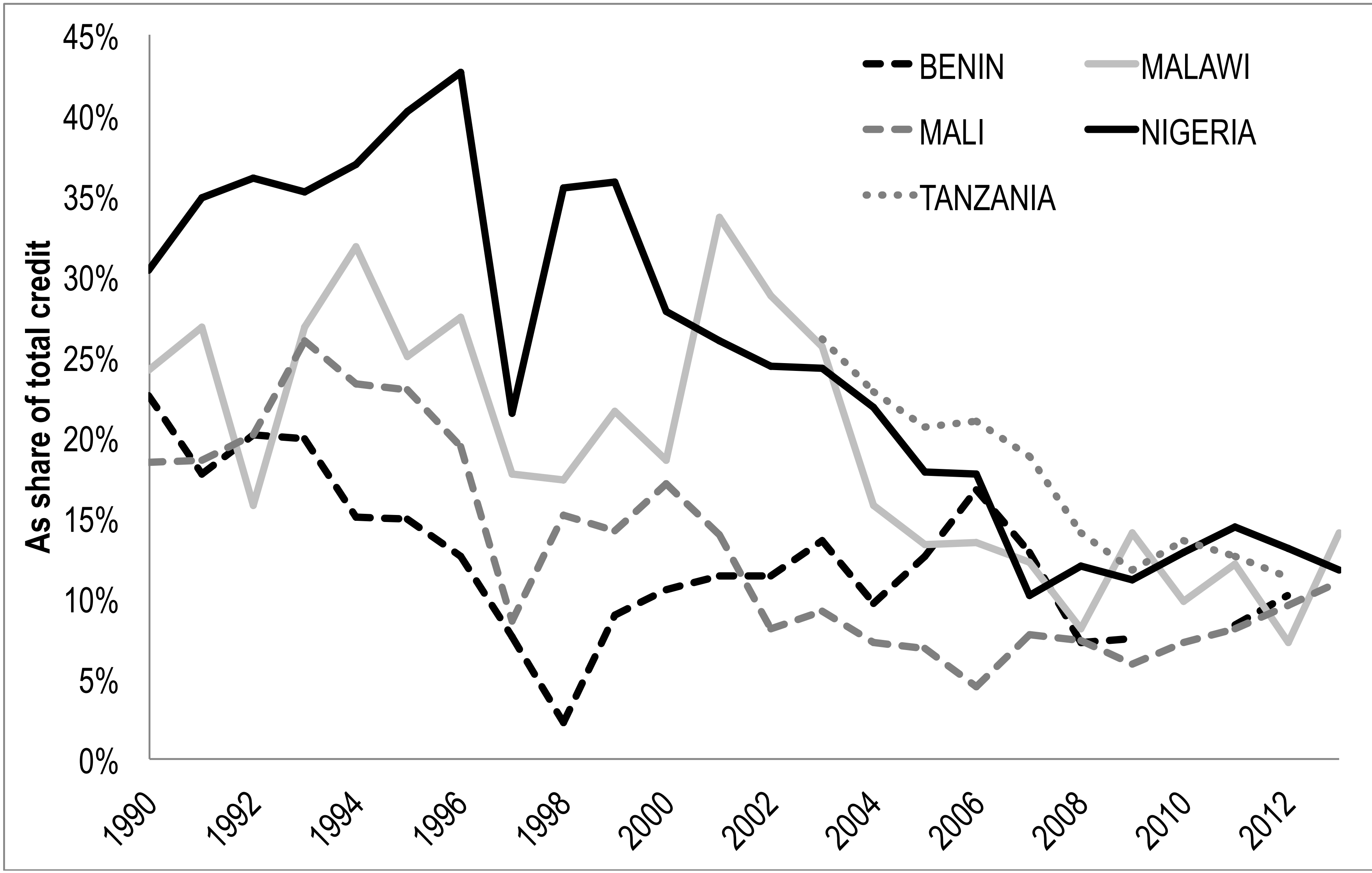
CREDIT BY PURPOSE

Country	Household credit: Consumption credit 2000s	Household credit: Mortgages 2000s	Business credit: 2000s	Business credit: Main sector / purpose
ANGOLA	19%			
BENIN	6%	1%	53%	Overdraft facility
MALAWI	16%		<50%	Overdraft facility
MALI	11%	1%	67%	Overdraft facility
NIGER	20%	5%	64%	Overdraft facility
SAO TOME & PRINCIPE	21%			
UGANDA	18%	11%		

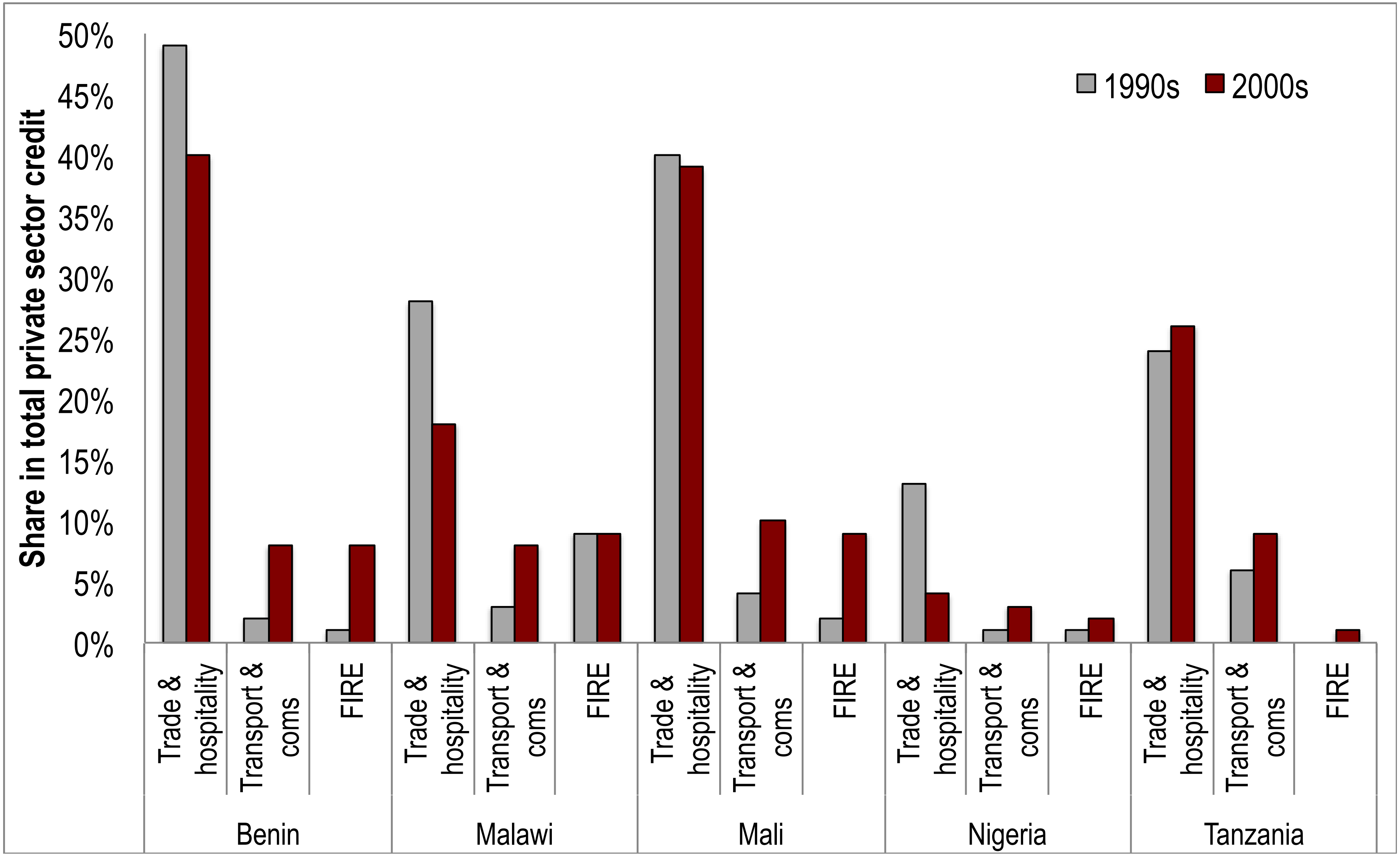
MANUFACTURING SHARE OF CREDIT

	Sector receiving most credit	Share of manufacturing credit to total credit 1990s	2000s	Trend in manufacturing credit share	Data availability
ANGOLA	Tertiary	n/a	7.3%	-	2011-2015
BENIN	Tertiary	14.2%	11.0%	- -	1990-2012
MALAWI	Tertiary	23.5%	16.2%	- -	1990-2013
MALI	Tertiary	18.6%	8.8%	- -	1984-2013
NIGER	Tertiary	12.2%	4.5%	-	1980-2012
NIGERIA	Other	34.9%	17.5%	- -	1981-2013
SAO TOME & PRINCIPE	Secondary	n/a	n/a		2008-2012
SIERRA LEONE	Tertiary	n/a	9.8%	+/-	2002-2013
SUDAN	Tertiary, Other	17.5%	11.2%	-	1996-2009
SWAZILAND	Other	n/a	16.0%	+	2005-2013
TANZANIA	Tertiary	n/a	17.2%	- -	1993-2012
UGANDA	Tertiary	n/a	14.0%	-	2007-2014

MANUFACTURING CREDIT AS % OF TOTAL CREDIT



TERTIARY SECTOR CREDIT BY TYPE



CONCLUSION

Decreasing share in manufacturing credit in 10 out of the 12 SSA ‘success stories’

Most credit flows into the service sector

Especially into trade activity (very limited transformative potential)

While there are very limited signs of financialisation, there is also little evidence that private-sector credit is channelled to highly productive sectors

Is there a link between deindustrialisation and financialisation? (Weller & O’Neill, 2014)