

GHANA

Ghana, a typically sub-equatorial country, lies in West Africa on the Gulf of Guinea. Area: 238,538 km². Population (June 1969 estimate): 8,600,000. Formerly the British colony known as the Gold Coast, it became independent on 6 March 1957, remaining in the Commonwealth. Good conditions for tropical agriculture in the semi-arid north and the humid south. Ghana is the world's foremost producer of cocoa, and has exportable mineral resources (gold, manganese, diamonds).

ORIGINS OF THE CENTRAL BANK

Until 1957 Ghana, together with Nigeria, Gambia and Sierra Leone, belonged to the monetary area of the West African Currency Board, which issued the common currency of all these territories, the African pound¹.

When Ghana became independent, it set up its own central bank, the Bank of Ghana, and started issuing its own money, the Ghanaian pound, which had the same value as the British pound sterling².

¹ For the working of the West African Currency Board, see under the heading NIGERIA.

² In July 1965, Ghana adopted the decimal system and introduced a new currency, the cedi, divided into 100 pesewa.

Two phases may be distinguished in the history of the Bank of Ghana, as regards both its structure and functions. Originally, by virtue of the constituent legislation of 1957, the Bank of Ghana was divided into a banking department and an issue department. The former officially assumed its functions on 1 August 1957, while the latter, after prolonged preparatory work, began only on 14 July 1958 to issue the new currency in succession to that of the West African Currency Board. The latter's money retained force of legal tender until 1 July 1959 and could still be converted until 1 January 1961, on which day the African pound was declared a foreign currency. With conversion completed, some of the reasons which had led to the division of the Central Bank into two departments ceased to matter, and accordingly the Bank of Ghana Act of 1963, in addition to other changes, merged the Bank's two departments.

ORGANIZATION OF THE CENTRAL BANK

The authorized capital of the Bank of Ghana was originally one million pounds, and was increased to 10 million in 1963. The whole of it is in the hands of the government, who also appoint the Bank's top-ranking officers.

Under the 1963 Bank of Ghana Act, the highest authority of the Bank was the Board of Directors, consisting of the Governor, the Deputy Governor (both appointed by the President of Ghana on the recommendation of the Prime Minister), and five other members appointed directly by the Prime Minister. This legislation was amended in 1965, and the Board of Directors now consists of the Governor, two Deputy Governors, three directors and six others.

The Board of Directors lays down general directives for the Bank's management and its monetary and credit policy, and the Governor is answerable to the Board for his acts and decisions.

FUNCTIONS OF THE CENTRAL BANK

The law defines the chief objectives of the Bank of Ghana as follows: (1) to issue and redeem bank notes and coin; (2) to regulate and direct the credit and banking system in accordance with the economic policy of the government; (3) to promote by monetary measures the stabilization of the value of the currency within and outside Ghana; (4) to 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 and monetary stability.

The Central Bank has the monopoly of issuing legal tender in the country. The initial legislation of 1957 required the issue department to cover the note issue in full by a reserve of gold, sterling and short-term sterling assets. This provision was altered by the 1963 Bank of Ghana Act. Only a proportion of the note issue needs to be covered now, and the reserve assets may include long-term securities and assets in currencies other than sterling, provided they are readily convertible into gold or sterling.

THE CENTRAL BANK'S RELATIONS WITH THE STATE

The Bank of Ghana acts as the government's banker in two respects. First of all it takes care of most of the cash transactions and credit operations connected with the budgets of the state and local authorities, either through its own branches or, in localities

where it has none, through commercial banks acting, for this specified purpose, as the Central Bank's agents. Secondly, it helps in public finance policy both by direct lending to the Treasury and by measures designed to ensure the placing, and support the price, of public loan stocks, especially Treasury bonds.

Direct lending by the Central Bank to the government is subject to a series of restrictions. In the first place, the operations concerned may be for the short term only, intended to bridge temporary cash deficiencies. In principle, furthermore, the government's debit position may not exceed a specified proportion of the current year's estimated budget revenue. Under the 1963 Bank of Ghana Act, this proportion is 10 per cent, but may, in cases of urgent need and upon request of the President, be raised to 15 per cent. Advances are repayable within three months of the end of the financial year during which they were made, by default of which the Bank may make no further advances until all outstanding debit balances have been repaid.

MONETARY AND CREDIT POLICY

The Bank of Ghana has been mainly concerned with defending the stability of the currency and creating an adequate structure of interest rates. To this end, quantitative credit controls were supplemented by selective controls, concerning the destination of commercial bank credits, and selective import deposits.

The Central Bank has powers to rediscount bills for the banking system and to deal in securities and foreign exchange on the open market. An interesting point in this connection is that, subject to prior consultation with the Finance Minister, the Central Bank may issue bonds of its own, and determine the conditions of their purchase and sale.

The 1963 Bank of Ghana Act, finally, gave the Central Bank powers to prescribe, and change, the proportion and composition of the commercial banks' compulsory liquidity reserves.

Ever since its inception, the Central Bank has done its best to create a structure of interest rates as independent as possible of interest rate fluctuations abroad, and hence more in keeping with the country's own economic and credit situation. In June 1961 the Bank fixed the rate of interest on Treasury bonds at its own discretion, without reference to interest levels abroad and more particularly in London. The banking system followed suit and fixed its own borrowing and lending rates with reference to the rate chosen by the Central Bank.

THE BANKING SYSTEM

Given the preponderance of British banks in Ghana, the country's banking system was at first heavily dependent upon London. The overseas branches of British banks not only drew largely on London for their resources, but also started out with a widespread network throughout the African continent, which enabled them to transfer liquid assets from one country to another in response to varying credit demand on separate national markets.

This situation has changed to some extent since independence and with the growth of domestic banks.

Ghana's banking system now consists of commercial banks and, for industrial credit and for medium- and long-term loans, a development bank called Ghana National Investment Bank. In addition, there is, since 1965, the Agricultural Credit and Co-operative Bank, in which the government holds a controlling majority and which extends low-interest credits to farmers.

The commercial banks accept money on current account and on deposit accounts, either as demand or time deposits. Current balances bear no interest, demand deposits earn at most 3.50 per cent and the rate on time deposits varies with the period for which they are tied.

In recent years there has been evidence of a tendency for the number of bank accounts to increase and individual balances to rise. The explanation lies not only in the territorial and economic expansion of the banks, but also in import and export controls, the former with respect to goods and services, and the latter to capital, with particular reference to the profits of the local subsidiaries of foreign companies.

The commercial banks handle short-term and medium-term credit, the former mostly in the form of credit lines on current account and of advances against securities.

Medium- and long-term loans are the specialized business of the Ghana National Investment Bank, which was founded in 1963 with funds provided by the government, which has a controlling holding, and by other domestic and foreign interests. Its purpose is to promote the establishment of new companies in industry, agriculture and trade, as well as to help them grow. It does so by means of loans and capital subscriptions to newly-formed companies, often accompanied by technical advice and assistance.

ORIGINS AND HISTORY OF THE COMMERCIAL BANKS

In 1951, when the studies were begun which eventually culminated in the so-called Trevor Report on Banking Conditions in the Gold Coast and on the Question of Setting up a National Bank, most of the country's banking business was done by two British

banks, the Bank of British West Africa Ltd. and Barclays Bank D.C.O. In addition, there was the Post Office Savings Bank, a co-operative bank called Gold Coast Co-operative Bank, a medium- and long-term credit institute called the Industrial Development Corporation, and the Agricultural Development Corporation.

The oligopolistic structure of the banking system, together with the two foreign banks' pronounced preference for financing international trade rather than local projects, created the impression in Ghana that domestic firms were the victims of serious discrimination. In 1952, therefore, a domestic bank, called the Ghana Commercial Bank, was set up for the specific purpose of introducing more competition into banking and assisting local projects by a more liberal credit policy. The government supported the new bank not only by providing part of its capital, but by entrusting to it the management of the accounts of several public corporations, including the very sizeable accounts of the Cocoa Marketing Board. In 1956, the First Ghana Building Society was set up to finance housing. There are also some credit unions in the country.

BANKING REGULATIONS

Banking regulations in force in Ghana apply mostly to the establishment, the capital and the liquidity reserves of banks.

Banking is subject to licence on the part of the government, in consultation with the Central Bank. The required minimum of paid-up capital varies according to the nationality of the bank concerned; domestic banks must have at least 750,000 new cedi of paid-up capital, or at least 5 per cent of total deposits, but for foreign banks the corresponding minimum is 2,000,000 new cedi.

Until 1963, the banks were free to keep liquid assets in amounts and of a composition decided at their own discretion. Then the Bank of Ghana Act gave the Central Bank powers to prescribe the proportion and composition of liquidity reserves and to require the banks to maintain a constant ratio of specified categories of assets to total deposits. The banks are also required to submit their balance sheets and periodic reports on their liquidity position to the Central Bank's supervisory department.