Key findings

Public bank lending in Africa in times of crisis

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This paper examines public bank lending in Africa in times of crisis. To do so, we exploit an original data set covering all banks operating in eight West African countries. The final sample considers 112 banks, including 24 public banks, over the period 2000–2019. We focus on how public banks react during and in the three years after macroeconomic shocks. Our empirical analysis provides the following results. First, lending activity is reduced in the wave of a crisis. Second, public and private banks do not differ in their lending decisions during a downturn. However, public banks do not reduce their activity in years following a crisis, contrary to domestic private banks. Third, the most probable explanation of the previous finding is the stability of the resources of public banks, especially deposits. Finally, the countercyclicality of public banks does not come at the expense of the degradation of public banks' health.

Objectives and research questions

This study is the first analysis of public bank lending in times of crisis in Africa. Many academic studies have empirically shown that banks owned by public authorities are less procyclical than private banks. However, these works have focused mainly on Latin America and Eastern Europe and to your knowledge there is a lack of evidence for Africa. This research fills this gap. We also add another contribution to the literature by examining how public banks differ in their lending decision not only during a crisis but also afterwards.

Methods

We exploit rich manually collected data on all banks operating in eight West African countries over the period 2000-2019. We proceed in two steps. First, we identify the economic downturns that occur in each country by identifying the years in which GDP per capita contracts substantially (relative to the average over the period). Second, we examine the lending behavior of public and private banks during the downturns but also over the following three years.

Results

The baseline analysis provides four main findings. First, lending tends to decrease more after a crisis than during a crisis. Second, public banks do not behave differently than private banks during a crisis. Third, we document that public banks maintain their lending in the wave of a crisis, contrary to private banks that contract their loans. Fourth, we show that banks in which the State owns the absolute majority of capital react more strongly than other public banks. We then identify channels explaining why public banks act countercyclically and we document that public banks benefit from stable resources, notably deposits. Finally, we ask whether the countercyclicality of public banks after a shock comes with shortcomings, such as the degradation of public banks' health. Contrary to expectations, State-owned banks do not suffer more than private banks regarding a deterioration of their performance or their portfolio quality during and after a shock.

Recommendations

The results of this work, as well as those provided by other research, point to a clear role for public banks after the onset of a crisis (with possibly a small short-term delay). The stability of public banks' resources is the main driver of this stabilizing action, and the authorities must preserve this stability. Another lesson is that while public banks are able to react to crises, the question of anticipating future crises arises. In particular, it is now recognized that many countries, especially in Africa, are suffering and will suffer increasingly intensely from the climate crisis. It is therefore important to consider the role of public banks in dealing with this future shock.

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