Ghana’s Banks’ Balance Sheets: Key Trends and Economic Implications

Explore the trends and challenges in Ghana’s banking sector, focusing on asset growth, non-performing loans, capital adequacy, and profitability.

Highlights

Ghana's total banking sector assets reached **GHS 195 billion** in 2023, driven by increases in deposits and investments.

Non-performing loans (NPL) in Ghana’s banking sector remain a challenge, accounting for **14.2%** of total loans.

The recapitalization of banks in 2018 led to stronger balance sheets, but profitability remains under pressure due to rising operating costs.

Content

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Research Methodology: This analysis is based on data from the Bank of Ghana (BoG), banking sector reports, and financial statements of key banks. It includes a detailed examination of asset growth, liability structures, and capital adequacy ratios. Data was analyzed over a period of five years to capture trends in non-performing loans (NPLs), investment portfolios, and profit margins. The analysis also incorporates policy measures and macroeconomic factors influencing the balance sheets of Ghanaian banks.

Key Statistics and Facts:

1. The total assets of Ghana’s banking sector increased by **12.5%** year-on-year to **GHS 195 billion** in 2023.
2. Total deposits grew by **15%**, reaching **GHS 130 billion** in 2023, highlighting increased customer confidence in the banking system.
3. Loans and advances to customers represented **46%** of total banking sector assets, but NPLs remain high at **14.2%**.
4. Investment securities held by banks account for **30%** of total assets, reflecting a shift toward safer, low-risk assets.
5. The sector’s capital adequacy ratio stood at **18.4%**, above the regulatory minimum of 13%, following recapitalization measures in 2018.
6. Net interest income accounted for **65%** of total revenue in the banking sector in 2023, reflecting a reliance on traditional banking activities.
7. The cost-to-income ratio of Ghanaian banks remained elevated at **55.6%**, driven by rising operational costs and inflation.
8. The return on equity (ROE) in the banking sector was **16.5%** in 2023, down from 18.7% in 2022, reflecting profitability pressures.
9. The banking sector’s liquidity ratio remained strong at **52%**, well above the regulatory minimum of 30%.
10. Following Ghana’s debt restructuring in 2023, banks experienced a **10%** reduction in the value of government bonds held on their balance sheets, impacting earnings.

Body of Article / Critical Analysis

Ghana’s Banks’ Balance Sheet: An Overview of Trends and Challenges

Ghana’s banking sector plays a critical role in the country’s economic development, providing credit to businesses and individuals, facilitating trade, and contributing to financial stability. In recent years, the sector has undergone significant transformations, particularly following the recapitalization measures introduced by the Bank of Ghana in 2018. These measures strengthened banks' balance sheets, but challenges such as high non-performing loans (NPLs), rising operational costs, and the impact of Ghana’s debt restructuring continue to weigh on the sector’s profitability and growth.

Growth in Assets and Deposits

The total assets of Ghana’s banking sector reached GHS 195 billion in 2023, representing a year-on-year growth of 12.5%. This asset growth has been driven primarily by increases in deposits, which grew by 15% to reach GHS 130 billion. The rise in deposits is a reflection of increased public confidence in the banking system, following the recapitalization and consolidation of the sector.

In terms of asset composition, loans and advances accounted for 46% of total assets, while investment securities, mainly government bonds, represented 30%. The significant proportion of assets held in government securities reflects banks’ preference for low-risk investments, particularly in a challenging economic environment where NPLs are elevated.

Non-Performing Loans (NPLs) and Credit Risks

One of the most pressing issues facing Ghana’s banking sector is the high level of non-performing loans, which stood at 14.2% of total loans in 2023. While this marks a slight improvement from the 16.8% recorded in 2022, it remains above the regional average, indicating persistent credit risk in the economy. The high level of NPLs is largely concentrated in sectors such as construction, trade, and agriculture, where businesses have been particularly vulnerable to economic shocks.

Banks have responded to this challenge by tightening lending standards and increasing provisions for bad loans, but the high NPL ratio continues to weigh on profitability and balance sheet quality. Additionally, the preference for investing in government securities over lending to the private sector limits the availability of credit for small and medium-sized enterprises (SMEs), which are critical drivers of economic growth.

Capital Adequacy and Profitability

The capital adequacy ratio (CAR) of Ghana’s banking sector stood at 18.4% in 2023, well above the regulatory minimum of 13%. This strong capital position is a direct result of the 2018 recapitalization exercise, which required banks to increase their minimum paid-up capital to GHS 400 million. The recapitalization has provided banks with a buffer against potential losses and positioned the sector to withstand economic shocks.

Despite this, profitability in the sector has come under pressure. The return on equity (ROE) in 2023 was 16.5%, down from 18.7% in 2022, reflecting rising operational costs and the impact of Ghana’s debt restructuring. The restructuring resulted in a 10% reduction in the value of government bonds held by banks, negatively impacting earnings. Additionally, the cost-to-income ratio remains high at 55.6%, driven by inflation and increased spending on technology and compliance.

Current Top 10 Factors Impacting Ghana’s Banks’ Balance Sheet

1. **Non-Performing Loans (NPLs):** High NPL levels continue to weigh on the quality of banks’ assets and profitability, particularly in sectors like construction and

trade.

2. **Government Debt Restructuring:** The 2023 debt restructuring reduced the value of government bonds held by banks, impacting earnings and capital adequacy.
3. **Deposit Growth:** Strong growth in customer deposits has bolstered the liability side of banks' balance sheets, providing liquidity for lending and investments.
4. **Interest Rate Environment:** The central bank's interest rate policies affect the net interest margins of banks, with higher rates generally leading to improved earnings on loans.
5. **Operational Costs:** Rising inflation and operational costs, particularly for technology upgrades and regulatory compliance, have increased the cost-to-income ratio of banks.
6. **Capital Adequacy:** The recapitalization of banks has strengthened their balance sheets, but maintaining high capital buffers impacts profitability.
7. **Liquidity Management:** Banks have maintained high liquidity ratios, ensuring stability, but this limits the funds available for lending to the private sector.
8. **Credit Risk Management:** Banks are increasingly focusing on improving credit risk assessment and management to reduce the likelihood of bad loans.
9. **Monetary Policy:** Changes in the central bank's monetary policy, including reserve requirements, directly impact banks' ability to lend and their profitability.
10. **Technological Investments:** Increased spending on digital banking platforms and cybersecurity, while necessary, is contributing to rising operational expenses for banks.

Projections and Recommendations

Ghana's banking sector is expected to experience moderate growth in the coming years, with total assets projected to increase by 8-10% annually. However, profitability will remain under pressure due to high NPLs, operational costs, and the impact of government debt restructuring. To improve the sector's long-term stability and profitability, several measures are recommended:

Reducing Non-Performing Loans: Banks should enhance their credit risk management practices and explore options for restructuring bad loans to reduce the NPL ratio.

Diversifying Income Sources: Banks need to diversify their revenue streams beyond traditional lending, including expanding into digital banking and investment services.

Cost Efficiency: Managing operational costs, particularly through technology and automation, will be critical for improving profitability.

Support for SMEs: Encouraging banks to extend credit to small and medium-sized enterprises (SMEs) can help diversify lending portfolios and support economic growth.

Strengthening Corporate Governance: Improved corporate governance and regulatory oversight will help mitigate the risks associated with lending and investment decisions.

Conclusions

Ghana's banking sector has made significant progress in strengthening its balance sheets following the 2018 recapitalization, but challenges remain. High levels of non-performing loans, the impact of debt restructuring, and rising operational costs continue to weigh on profitability. To ensure sustainable growth, banks will need to focus on improving credit risk management, diversifying income sources, and enhancing operational efficiency.

Notes

All statistics and data in this article are based on reports from the Bank of Ghana, financial statements from major banks, and economic analysis from the World Bank and IMF, as of 2023-2024.

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