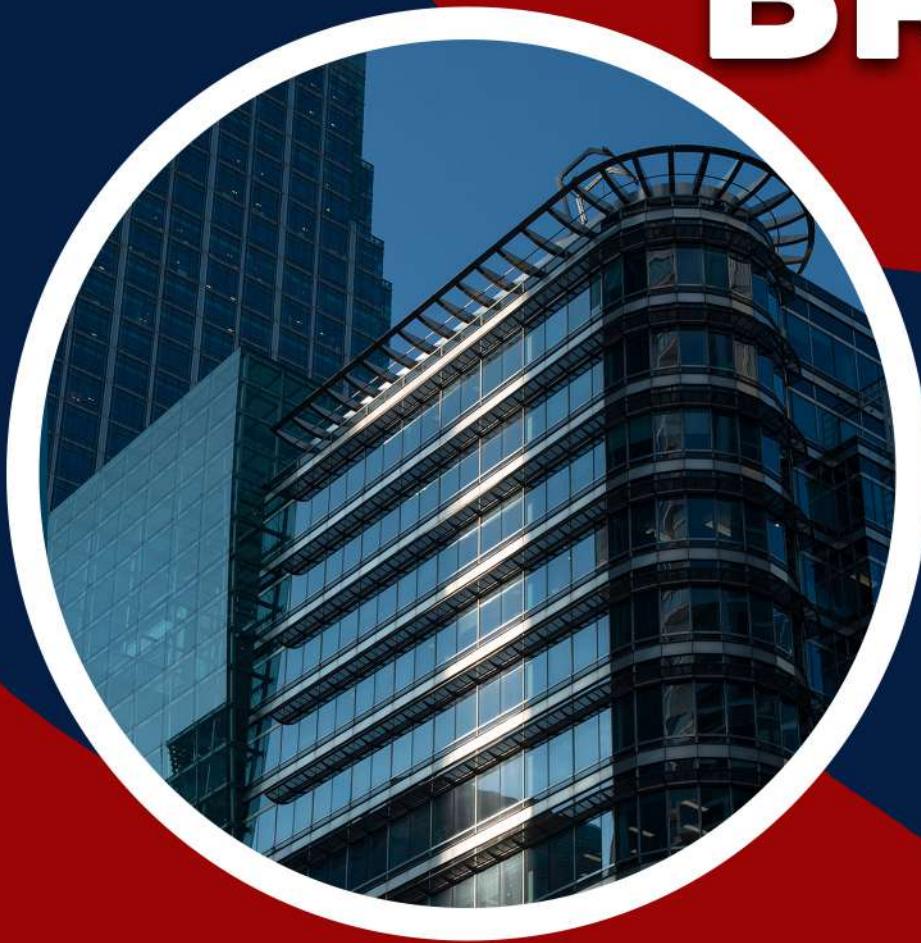


POLICY BRIEF



Ghana's Banks Through the Shock: Profitability, Risk, and Policy Lessons from 2020-2025

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GHANA'S BANKS THROUGH THE SHOCK: PROFITABILITY, RISK, AND POLICY LESSONS FROM 2020–2025

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Executive Summary

Ghana's banking sector navigated one of its most challenging macro-financial periods between 2020 and 2025, a phase defined by rapid inflation, sharp exchange rate swings, tight fiscal conditions, and elevated interest rates. Despite these pressures, the sector remained functional, resilient, and systemically stable, continuing to provide essential financial intermediation while protecting depositors' funds. Profitability indicators were generally stable in the early years but declined sharply during the height of macroeconomic pressures, particularly when inflation accelerated, cedi weakened significantly together with the huge impairment losses from the domestic debt exchange programme(DDEP), before restoring and stabilizing later in 2023. Credit risk followed an upward trend, with Non-Performing Loans rising as households and firms struggled under increasing costs and reduced real incomes. Capital Adequacy though weakened along the way remained within regulatory requirements and recovered gradually as banks strengthened their balance sheets. Liquidity indicators remained consistently strong throughout, serving as a stable cushion that supported depositor confidence even in the midst of significant macroeconomic volatility

These trends occurred against a backdrop of high inflation, tight monetary policy, elevated interest rates, rapid currency depreciation, domestic debt exchange programme and depleting net international reserves, all of which amplified stress across bank balance sheets. As external reserves improved and inflation

moderated from 2024 onwards, overall banking-sector performance strengthened.

The experience reinforces a key message: macroeconomic stability is fundamental to banking stability. Banks should continue strengthening credit-risk assessment systems, investing in cost-efficient digital processes, and maintaining strong capital-planning frameworks that incorporate stress-testing for inflation, interest-rate, and exchange-rate shocks. Policymakers, on their part, must safeguard stability through disciplined fiscal management, credible inflation control, and rebuilding of external buffers to support confidence and reduce systemic risk.

Introduction

From 2020 through 2025, Ghana's banking sector operated within a period defined by shifting and often unpredictable macroeconomic conditions. The years following the COVID-19 pandemic brought a combination of domestic and external pressures that shaped the performance of banks in significant ways. Sharp increases in inflation, substantial movements in the exchange rate, tight fiscal space, and elevated interest rates created an environment that tested the strength and adaptability of the industry. Yet, despite these challenges, the sector continued to provide essential financial intermediation services, protect depositors' funds, support economic activity, and maintain overall system stability.

The study is therefore aimed at examining the banking-sector performance indicators—profitability, credit risk, capital adequacy, liquidity, and operational efficiency—responded to these macroeconomic developments. By analysing the trends and patterns that emerged during this five-year period, the paper seeks to offer a clearer understanding of how banks adjusted to the shocks, where vulnerabilities intensified, and how stability was preserved. This assessment is particularly relevant because the 2020–2025 period represents one of the most severe macro-financial stress episodes in Ghana's recent history, marked by inflationary surges, significant currency depreciation, and major fiscal pressures, including the Domestic Debt Exchange Programme.

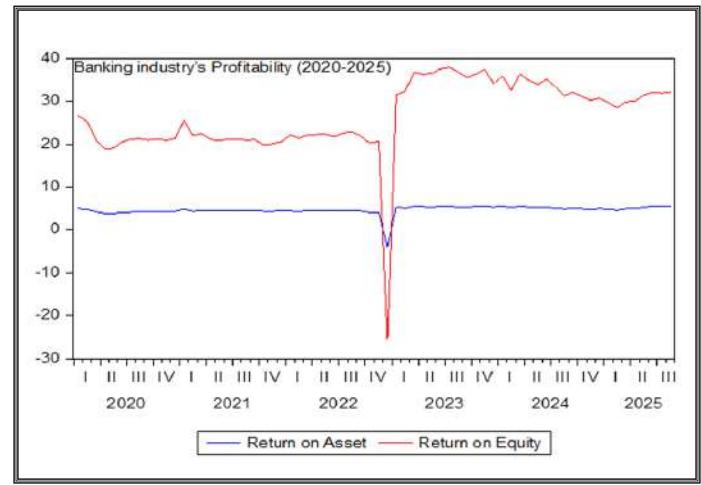
Understanding the interaction between macroeconomic volatility and banking-sector performance is essential for both industry players and policymakers. It provides insights into the resilience of Ghana's financial system, highlights the importance of strong regulatory and risk-management frameworks, and offers practical lessons for improving banking-sector stability in future periods of economic uncertainty. The data show that while banks were not insulated from the shocks, they demonstrated an ability to adjust, rebuild buffers, with significant Bank of Ghana supports including temporal regulatory forbearance which gradually restore performance indicators that had weakened during the most turbulent moments.

Methodology

This analysis relies purely on descriptive trend assessment, using monthly macro-financial data sourced exclusively from the Bank of Ghana's online database portal. The scope of variables considered ranged profitability, liquidity, cost efficiency and key macroeconomic indicator. Eviews Software have been used to generate the descriptive statistics on the series and for the graphical presentation. The study does not establish causality but rather illustrates the direction of movement and association between the banking sector performance indicators and the macroeconomic variables to draw descriptive based conclusion across the 2020–2025 period.

Profitability (ROA and ROE): Movement Through a Stress Cycle

The evolution of Return on Assets (ROA) and Return on Equity (ROE) between 2020 and 2025 provides a detailed account of how profitability adjusted in response to prevailing economic realities. ROA remained largely positive during most months between 2020 and 2021, suggesting that banks maintained effective cost control, stable interest margins, and fairly consistent income streams. However, this resilience faced a turning point in 2022, a year in which inflation surged dramatically, and the currency encountered intense depreciation pressures. ROA fell sharply and reached its lowest point at -3.83% in late 2022 largely attributable to impairment losses from the DDEP as most of the government loans and bonds were classified in the banks' books were reclassified. This decline represented a significant deviation from earlier stability and reflected the direct effect of rising loan-loss provisions, higher operational costs, and reduced real returns on interest income.



Source: BoG Online DataBase Portal : Graph Constructed in Eviews By the Author

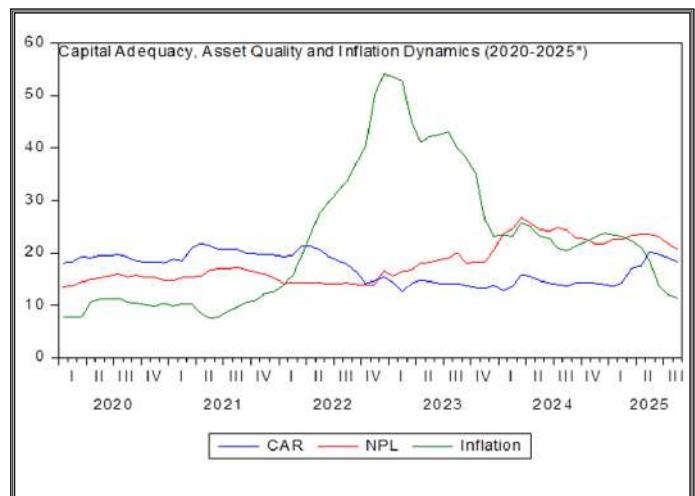
Similarly, ROE, which had recorded healthy double-digit values in the early part of the dataset, experienced a sudden and dramatic drop during this period of instability. The figure of -25.48% in December 2022, a period characterized by domestic debt restructuring, marks one of the most severe declines in sector profitability in recent history. Such a sharp reversal highlights how profoundly macroeconomic pressures influenced balance sheet performance. Nonetheless, beginning in 2023, both ROA and ROE began to

improve as inflation moderated and operational conditions became more predictable. The rebound illustrates the sector's capacity to restore profitability once the most disruptive conditions began to ease, demonstrating how important macro stability is for sustainable earnings.

Credit Risk (NPL): A Gradual Rise with Macroeconomic Strain

Non-performing Loans (NPL) provide a clear and consistent measure of how pressure on households and firms translated into banking-sector stress. Across the entire period, NPL remained elevated, with an average close to 18%. However, the more striking feature of the trend is the steady rise in NPL from 2021 through 2024, culminating in values that exceeded 26%. This gradual rise indicates that many borrowers increasingly struggled with repayment obligations as economic conditions deteriorated. Firms exposed to imported raw materials faced higher production costs due to rising inflation and rapid depreciation of the cedi, while households confronted declining disposable income and increases in basic living expenses.

The progression in NPL closely mirrors the inflation curve and the pattern of exchange rate depreciation. As prices rose sharply, the real value of income and cash flows diminished, restricting the ability of borrowers to meet their monthly loan commitments. The 2022–2023 period, which saw the highest inflation in over twenty years, also corresponds to the period with some of the highest NPL values in the dataset. Since NPL directly affects provisioning requirements, the sustained pressure on asset quality contributed significantly to the temporary weakening of profitability and capital adequacy indicators. Although credit quality pressure eased slightly by 2025, the elevated NPL levels remained a reminder of how deeply macroeconomic shocks can permeate the banking system.



Source: BoG Online DataBase Portal : Graph Constructed in Eviews By the Author

Capital Adequacy (CAR): Buffers Absorbed the Pressures

The Capital Adequacy Ratio (CAR) offers insight into how well banks were positioned to withstand losses during this period of uncertainty. For most of the 2020–2021 period, CAR remained comfortably above 18%, reflecting a healthy capital buffer supported by retained earnings, prudent risk-weighted asset management, and relatively stable borrowers' performance. However, as the economic environment grew more difficult in 2022, CAR began to record noticeable declines, with some months falling to levels between 12% and 14%. This shift did not indicate systemwide fragility, but it did reflect the impact of increased impairment charges, reduced profitability, and shifts in asset composition.

Despite the pressure, CAR did not fall below regulatory thresholds, and banks remained adequately capitalized throughout the period. The gradual rebuilding of CAR averaging 13.96% in 2024 and 17.51% by August, 2025, from the average of 13.96% in 2023 shows how banks responded appropriately to earlier challenges by tightening risk management practices, moderating credit expansion, and strengthening capital planning. In particular, improvements in ROA and ROE supported internal capital generation, contributing to the slow upward movement in CAR. This pattern emphasizes the crucial role capital plays as a stabilizing force, especially during periods of elevated credit risk and macroeconomic volatility.

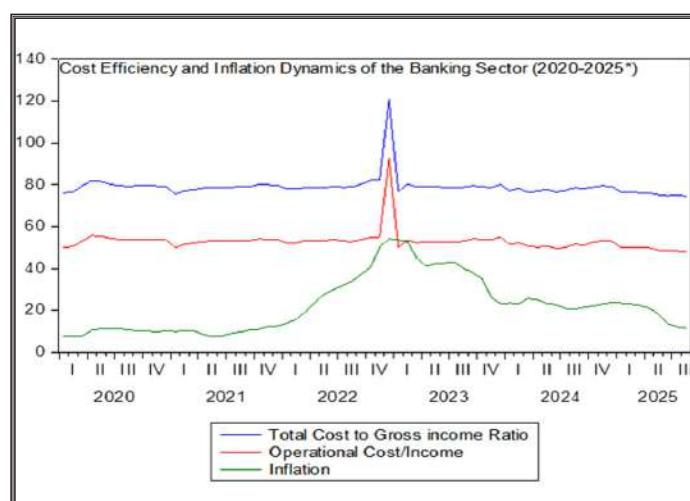
Liquidity (CLASTL and CLATA): A Consistent Source of Stability

Liquidity indicators—Core Liquid Assets to Short-Term Liabilities (CLASTL) and Core Liquid Assets to Total Assets (CLATA)—were among the most stable metrics across the period. CLASTL averaged approximately 33%, while CLATA averaged about 26%, levels that reflect strong liquidity management and a high degree of preparedness for unexpected withdrawals or market disruptions. Even during the height of inflationary pressures and exchange rate volatility in 2022, liquidity indicators remained robust, helping to preserve confidence in the banking sector and preventing any episodes of liquidity stress.

The stability of liquidity conditions was particularly important given the elevated interest rate environment. Banks faced rising funding costs as T-bill rates and deposit rates increased, but their ability to maintain sufficient liquid assets allowed them to continue meeting short-term obligations. The strength of these liquidity ratios also reduced rollover risk at a time when government borrowing requirements were high and market conditions were tight. Overall, the performance of CLASTL and CLATA illustrates how liquidity served as a quiet yet essential buffer during a period of significant macroeconomic turbulence.

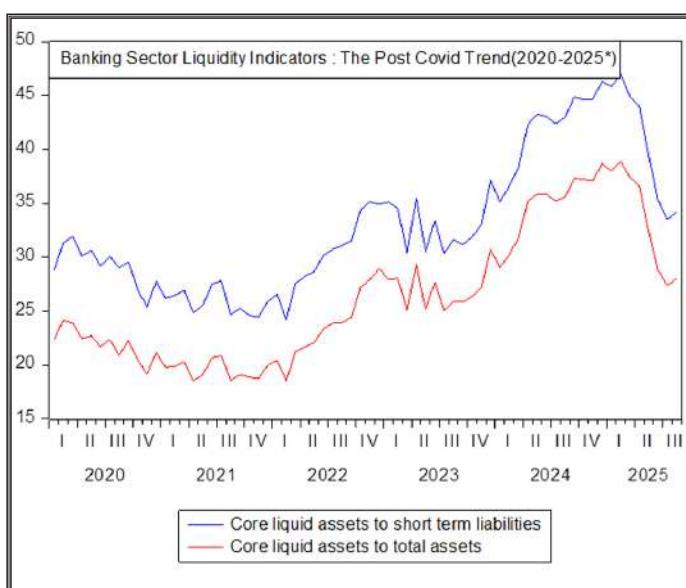
Cost Structures: Limited Flexibility Amid High Inflation

Operational efficiency indicators, such as Operational Cost/Income and Total Cost/Gross Income, showed limited flexibility throughout the 2020–2025 period. Operational Cost/Income averaged slightly above 50%, while Total Cost/Gross Income fluctuated around 75% to 80%. These figures reflect the structural characteristics of the sector, where operational, administrative, and technology costs remain consistently high. The acceleration of inflation further amplified these costs, especially in logistics, utilities, technology procurement, and branch operations.



Source: BoG Online DataBase Portal : Graph Constructed in Eviews By the Author

With income growth slowing in parts of 2022 and 2023 and loan impairment costs rising sharply, the high operating cost structure became even more pronounced. Banks faced the challenge of maintaining service delivery standards while managing upward cost pressures and weaker earnings. Although digital transformation efforts have helped moderate cost growth, the structural cost base of the industry remains substantial. This highlights the need for continued investment in efficiency-enhancing technologies and process optimization if banks are to maintain strong margins in the years ahead.

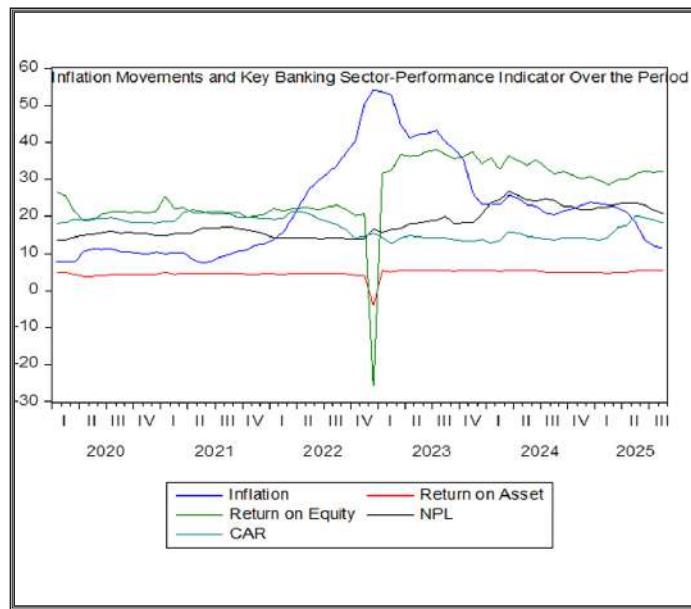


Source: BoG Online DataBase Portal : Graph Constructed in Eviews By the Author

Macroeconomic Conditions Shaping Banking Outcomes

Inflation

Inflation was one of the most defining macroeconomic features of the period. Starting from moderate levels in 2020, inflation accelerated sharply, reaching a peak of 54% in December 2022. This rise was driven by pandemic-related disruptions, exchange rate depreciation, global commodity price increases, and domestic supply constraints. The inflationary surge affected households, firms, and financial institutions alike, influencing nearly every banking indicator. The highest inflation coincided with the lowest readings of ROA and ROE, elevated NPL, and weakened CAR, creating a clear and consistent pattern across the data. The return to more moderate inflation levels in 2024 contributed to the recovery in banking performance.

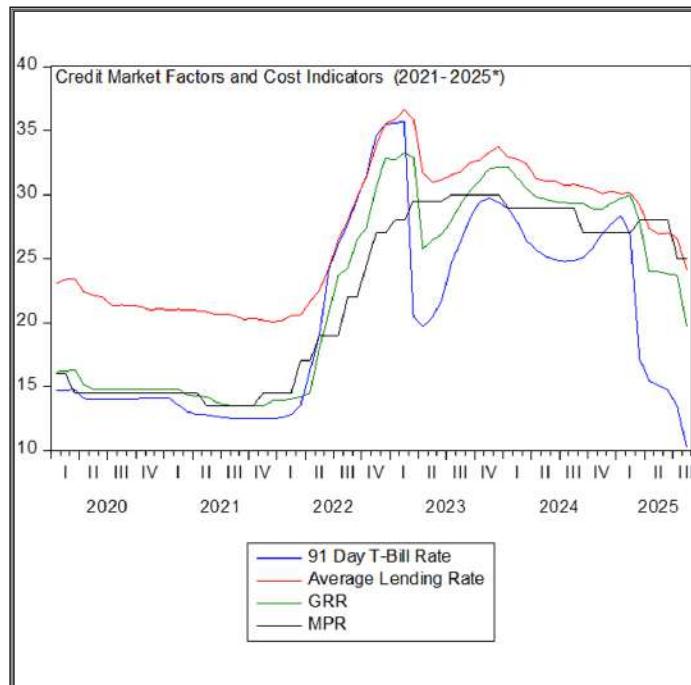


Source: BoG Online DataBase Portal : Graph Constructed in Eviews By the Author

Interest Rates (MPR, ALR, and 91-day T-bill)

Interest rates remained elevated for most of the period. The Monetary Policy Rate (MPR) increased progressively from 14.5% in early 2020 to as high as 30% by 2023. The Average Lending Rate (ALR) also rose, often remaining above 32% and reaching higher levels in months of intense macro pressure. The 91-day T-bill rate mirrored these movements, frequently exceeding 30% during periods of constrained market liquidity and high government borrowing needs.

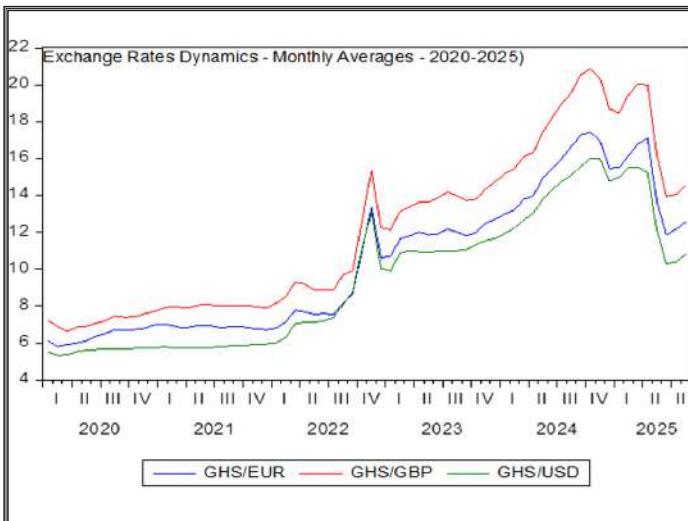
Elevated interest rates increased the cost of credit for households and firms, weakened demand for new loans, and contributed to a slower pace of credit expansion. At the same time, the high rates raised funding costs for banks and influenced net interest margins.



Source: BoG Online DataBase Portal : Graph Constructed in Eviews By the Author

Exchange Rate Movements

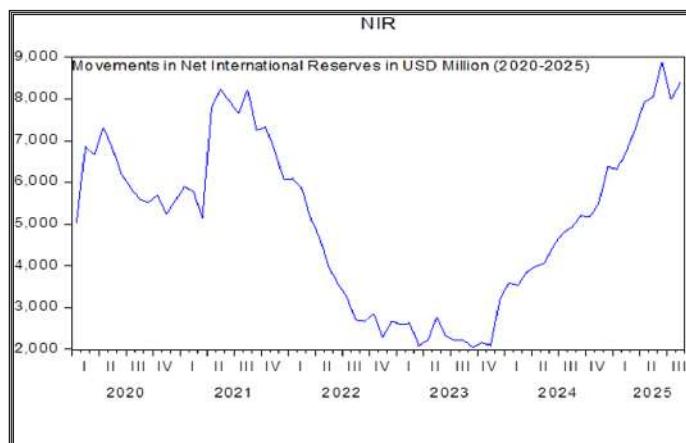
The exchange rate experienced substantial volatility over the period. The Ghanaian cedi depreciated sharply against major currencies, with the GHS/USD moving from about 5.3 in early 2020 to peaks above 15 during 2022. Similar depreciations occurred against the euro and the pound. Exchange rate movements contributed to higher import costs, increased inflation, and greater uncertainty for firms engaged in international trade. Borrowers with foreign currency exposures faced higher repayment burdens, which increased the risk of default. The relationship between FX volatility and banking-sector performance is clearly reflected in the parallel movements between depreciation, rising NPL, and declining profitability during the peak stress period.



Source: BoG Online DataBase Portal : Graph Constructed in Eviews By the Author

External Buffers (NIR): A Key Anchor of Stability

Net International Reserves (NIR) fluctuated significantly during the period and played a central role in shaping external stability. NIR levels were relatively strong in parts of 2021 but declined sharply by late 2023, reaching values near 2,000. Lower NIR limited the ability to manage volatility in the foreign exchange market, and the periods of lowest reserves coincided with the sharpest currency depreciation and highest inflation. This pattern is consistent with the periods of increased NPL, weaker ROA and ROE, and softer CAR readings. As NIR began to improve in 2024 and 2025 due to significant reserves build-ups and export revenue performance, conditions in the FX market became more stable, and the banking sector benefited from a calmer external environment.



Source: BoG Online DataBase Portal : Graph Constructed in Eviews By the Author

Conclusion

The years from 2020 to 2025 marked a period of considerable economic uncertainty for Ghana, but the banking sector demonstrated notable resilience. While profitability, asset quality, and capital adequacy weakened during the peak stress years, these indicators gradually improved as macroeconomic conditions stabilized. Liquidity remained consistently strong, playing a major role in preserving financial sector stability. The overall experience underscores a clear lesson: macroeconomic stability—anchored by moderate inflation, stable currency conditions, sound fiscal management, and adequate external buffers—is indispensable for sustained banking-sector strength.

Recommendations for Banks and Policymakers

Banks can build on the lessons of this period by strengthening credit risk management frameworks, improving the use of early-warning systems, and deepening sectoral analysis to better anticipate borrower vulnerabilities. Investments in operational efficiency, particularly through digital transformation, will help moderate cost pressures and support stronger margins. Banks should also enhance capital planning processes and maintain forward-looking stress tests that incorporate inflation, interest rate, and exchange rate scenarios.

For policymakers, the experience of 2022–2023 highlights the importance of maintaining macroeconomic stability as a foundation for financial-sector performance. Policies that support inflation moderation, strengthen fiscal discipline, and rebuild Net International Reserves will help reduce systemic risk and enhance confidence. Ensuring a predictable regulatory environment, improving market liquidity conditions, and promoting targeted support mechanisms for vulnerable but productive sectors will further contribute to a resilient and growth-oriented financial system.

Limitation

While this approach effectively highlights the patterns and turning points within Ghana's macroeconomic environment, it comes with limitations, particularly the absence of econometric identification. Nevertheless, the trends presented here are broadly consistent with extensive empirical findings and well-established theoretical frameworks that document the strong linkage between inflation dynamics, monetary policy adjustments, and the cost of credit

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