

# POLICY BRIEF



## Managing Non-Performing Loans in Ghana's Banking Sector:

Balancing Prudential Discipline with Realistic  
Transition Pathways

GAB RESEARCH

June 2026

PB/006/26



GHANA ASSOCIATION OF BANKS

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# EXECUTIVE SUMMARY

**N**on-performing loans (NPLs) remain a central and persistent vulnerability within Ghana's banking sector, with significant implications for financial stability, bank performance, and the sector's ability to support economic growth. Although the 2017–2018 banking sector clean-up led by the Bank of Ghana restored confidence and strengthened capital positions in the short term, empirical evidence indicates that it did not deliver a sustained reduction in underlying credit risk. A paired sample t-test shows that average NPL levels in the post-clean-up period are significantly higher than in the pre-reform period ( $p < 0.001$ ), while recent bank-level data confirms that NPL ratios remain elevated across much of the industry, with several institutions still far above prudential thresholds based on their end of year financials for 2025. Moreover, the Bank of Ghana's latest financial stability stress testing results indicate that under baseline conditions characterized by a favourable macroeconomic environment and the successful implementation of the NPL reduction strategy, the industry NPL ratio is projected to decline to 16.3 percent by end-December 2026.

In attempt to 'cure-at-once' this lasting and financial/banking sector endemic, the Bank of Ghana has introduced a strengthened regulatory framework, including a 10 percent NPL ceiling by December 2026, enhanced supervisory oversight, and stricter enforcement

mechanisms. These measures represent a critical and commendable step toward restoring asset quality and reinforcing financial discipline. However, the persistence of high NPLs, driven by structural and macroeconomic factors suggests that regulatory tightening alone may be necessary but not sufficient to achieve a lasting solution.

Within this context, the current timeline for achieving the 10 percent NPL target may be overly ambitious and could incentivize short-term adjustments, including aggressive loan write-offs and unwarranted credit growth in an attempt to dilute the base, which may not address the root causes of the problem. This may have adverse implication for efficient credit allocation given the sectoral composition of NPLs.

Practically, this could place banks in a significant dilemma. On one hand, they may seek to expand lending in order to dilute the NPL ratio and bring it closer to regulatory expectations. On the other hand, they may opt to strategically restructure their loan portfolios by tightening credit exposure to critical sectors that have historically exhibited a higher propensity for loan defaults and, consequently, a greater contribution to non-performing loans. This brief therefore advocates a calibrated transition pathway that aligns prudential objectives with prevailing industry conditions and the banking sector's capacity for sustainable adjustment.

Such an approach would support the continued reduction of NPLs while preserving financial stability, credit intermediation, and the banking sector's contribution to economic recovery. Moreover, this should be complemented with a differentiated, risk-based supervisory framework that accounts for varying conditions across banks.

Beyond regulatory adjustments, the brief emphasizes the importance of addressing structural constraints within the financial ecosystem, particularly by strengthening legal and institutional frameworks for debt recovery and improving the efficiency of the judicial process. Further, elevated NPLs should not be viewed solely as a weakness but also as an opportunity to catalyse financial innovation and market development. Instruments such as securitization, factoring, and the establishment of a secondary market for distressed assets can provide pathways for risk transfer, enhance liquidity, and create balance sheet relief for banks. Through coordinated policy action and regulatory clarity, these mechanisms can transform the NPL challenge into an avenue for deepening Ghana's financial architecture.

Ultimately, achieving a sustainable reduction in NPLs will require a balanced strategy that combines strong regulatory discipline with realistic timelines, structural reforms, and macroeconomic stability. Such an approach will not only strengthen the resilience of the banking sector but also ensure that it continues to play its critical role in supporting Ghana's long-term economic transformation.



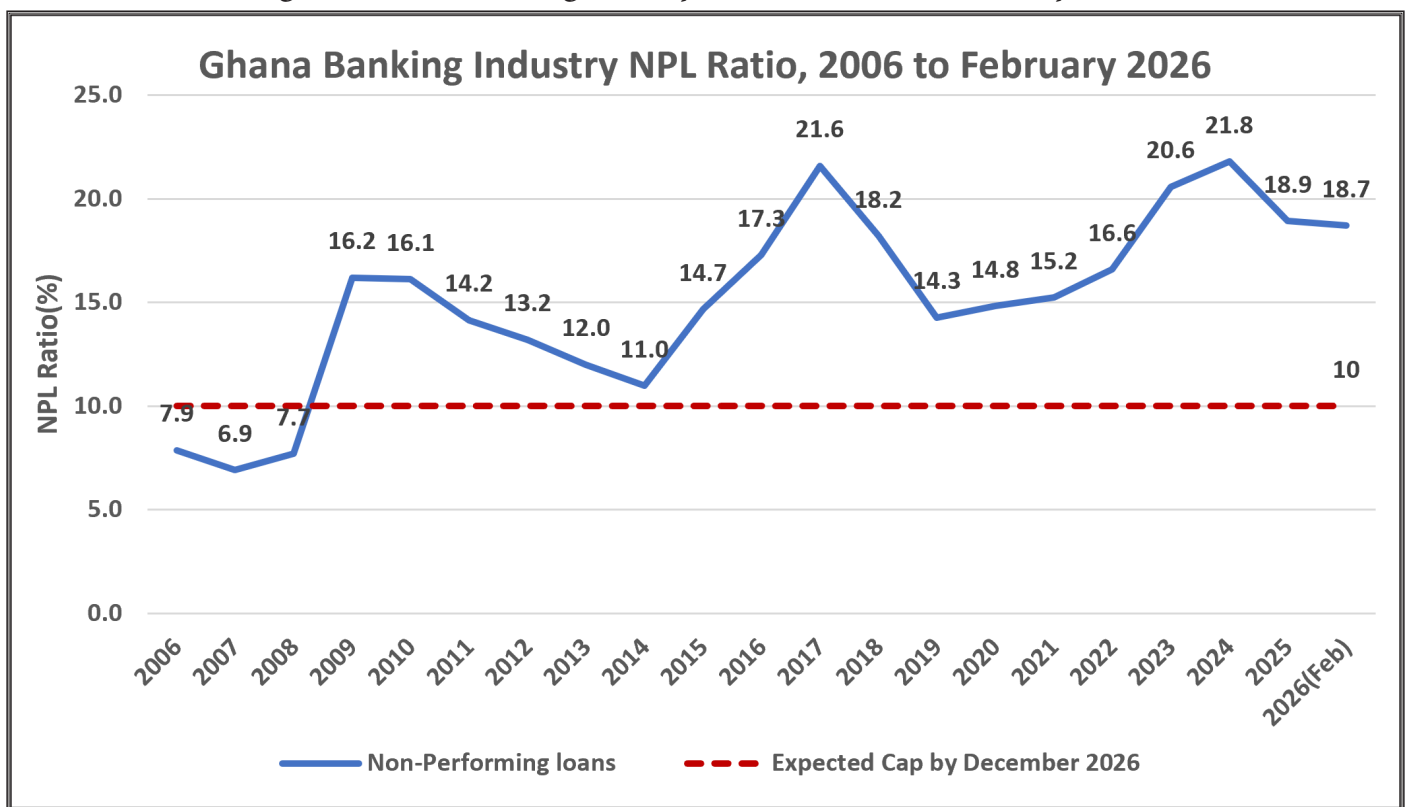
# 1.0. Background and Context

Ghana's banking sector has undergone a profound transformation since the 2017–2018 financial sector clean-up exercise led by the Bank of Ghana. This intervention marked a critical turning point in the evolution of the financial system, as it sought to address long-standing structural and systemic weaknesses that had gradually undermined the stability and credibility of the sector. Prior to the clean-up, the banking industry was characterized by significant vulnerabilities, including weak corporate governance frameworks, ineffective risk management systems, persistent liquidity challenges, and, most notably, a high and rising stock of non-performing loans (NPLs).

Non-performing loans have consistently represented one of the most serious threats to

financial intermediation in Ghana. As depicted in Figure 1, aggregate end of year NPLs for the banking industry have remained significantly above 10% in most years, and severe in the recent years (2022-2026). The impact of these weakening asset base of the industry is both immediate and far-reaching. At the level of individual banks, high NPLs reduce interest income, increase impairment charges under prudential and accounting standards such as IFRS 9, and ultimately erode capital buffers. This weakens banks' ability to absorb shocks and constrains their capacity to expand lending. At the system-wide level, elevated NPLs undermine confidence in the financial sector, distort credit allocation, and limit the ability of banks to effectively support private sector growth and broader economic development.

Figure 1: Ghana banking industry NPL ratio, 2006 to February 2026.



Source: Constructed by the Ghana Association of Banks using monthly NPL series from Bank of Ghana Online Database portal

The banking sector clean-up exercise from 2017 through 2018 revealed the full extent of the problem. Asset Quality Reviews conducted at the time showed that several banks (over 13 banks) had experienced severe deterioration in the quality of their loan portfolios. In many cases, capital had been significantly impaired, with some institutions falling below minimum regulatory requirements. The situation was further exacerbated by governance failures, including related-party lending and inadequate oversight by boards and ineptitude of some management. The erosion of capital and high levels of loan losses were central factors behind the banking sector clean up exercise that led to the collapse of several banks.

## 1.1. Regulatory Response and Reform Efforts

In the aftermath of the crisis, the Bank of Ghana implemented a broad and ambitious reform agenda aimed at restoring stability, strengthening regulatory oversight, and building a more resilient and well-capitalized banking system. A central pillar of this reform effort has been the improvement of asset quality, with a particular focus on reducing the stock and flow of non-performing loans.

The current regulatory framework reflects a shift toward more proactive and rules-based supervision. In this framework, banks are now required to maintain stronger credit risk management systems, including rigorous credit appraisal processes, continuous monitoring of loan performance, and early intervention mechanisms for deteriorating exposures. There is also an increased emphasis on governance,

with boards expected to play a more active role in setting risk appetite and overseeing credit decisions.

A key feature of the new framework is the introduction of a prudential limit on NPLs, which mandates that banks maintain an NPL ratio of not more than 10 percent by December 2026. This target is intended to align Ghana's banking sector with international best practices and to ensure that asset quality remains within manageable levels. Banks that fail to meet this requirement are required to submit board-approved remediation plans outlining concrete strategies for reducing their NPL ratios within a specified timeframe. These strategies typically include enhanced recovery efforts, restructuring of viable loans, and tighter credit underwriting standards.

To reinforce compliance, the regulatory framework includes a range of enforcement mechanisms. Banks that persistently exceed the NPL threshold may face restrictions on dividend payments and bonuses, as well as limitations on lending activities in high-risk segments. In addition, the Bank of Ghana has mandated the write-off of fully provisioned loans that have no realistic prospects of recovery, while also encouraging the restructuring of distressed but viable exposures. These measures are complemented by enhanced disclosure requirements and more frequent supervisory reporting.

Collectively, these reforms represent a significant strengthening of the regulatory and supervisory environment and underscore the central bank's commitment to promoting a sound and stable banking system

## 1.2. Empirical Evidence and Current Industry Realities

Despite these substantial reforms, emerging evidence suggests that the challenge of non-performing loans remains both significant and persistent. Empirical analysis based on a paired sample t-test provides important insight into the evolution of NPLs in Ghana over time. The results indicate that average NPL levels in the post-2018 period are statistically higher than those observed in the pre-clean-up period, with the difference being highly significant ( $p < 0.001$ ). This finding is particularly instructive, as it challenges the assumption that the clean-up exercise led to a durable improvement in asset quality.

Moreover, NPLs have persisted and, in some cases, re-emerged at elevated levels, suggesting that the problem is more deeply rooted than initially anticipated.

The banking industry's asset quality improved in 2025, with the industry-wide non-performing loan (NPL) ratio declining from 21.8 percent in December 2024 to 18.9 percent in December 2025. This improvement reflects the continued slowdown in the accumulation of new NPLs, enhanced recovery efforts by banks, and the gradual stabilization of macroeconomic conditions. Nevertheless, the industry's NPL ratio remains elevated and above its pre-DDEP levels, indicating that asset quality vulnerabilities continue to pose a significant challenge to the banking sector.

Bank-level data further reveals considerable variation in asset quality performance across institutions. While some banks have successfully reduced their NPL ratios to single-

digit levels, a substantial number of banks continue to report elevated levels of impaired assets. Of the 22 banks that had released their audited 2025 financial statements at the time of this review, 14 recorded NPL ratios above 10 percent, while several institutions remained significantly above both industry averages and regulatory expectations. The wide dispersion in NPL ratios underscores the uneven nature of the industry's recovery and suggests that some institutions face considerably greater adjustment challenges than others.

The current position of the industry becomes more significant when assessed against the Bank of Ghana's NPL reduction framework, which requires banks to reduce their NPL ratios to a maximum of 15 percent by June 2026 and further to 10 percent by December 2026. Based on audited 2025 financial statements, majority of banks remain above the end-2026 prudential cap, while a significant number would also need to achieve substantial reductions within a relatively short period to meet the June 2026 threshold. This highlights the magnitude of the adjustment required across the industry and raises questions regarding the feasibility of achieving both targets within the stipulated timeframe without unintended consequences for credit intermediation.

The challenge is further reinforced by the Bank of Ghana's own Financial Stability stress-testing results. Under baseline conditions characterized by a favourable macroeconomic environment and the successful implementation of the NPL reduction strategy, the industry-wide NPL ratio is projected to decline to 16.3 percent by end-December 2026. This suggests that the current 10 percent target requires an adjustment materially stronger

than the regulator's own baseline expectation. Consequently, policy efforts may be better directed toward closing this gap through sustainable asset quality improvements rather than incentivising outcomes that could be achieved primarily through accounting-driven balance-sheet adjustments. Also, while the projection represents a notable improvement from the 18.9 percent recorded in December 2025, it remains above both the June 2026 prudential threshold of 15 percent and the December 2026 target of 10 percent.

This suggests that even under favourable economic conditions, the banking sector may face difficulties in meeting the prescribed thresholds within the current implementation timeline.

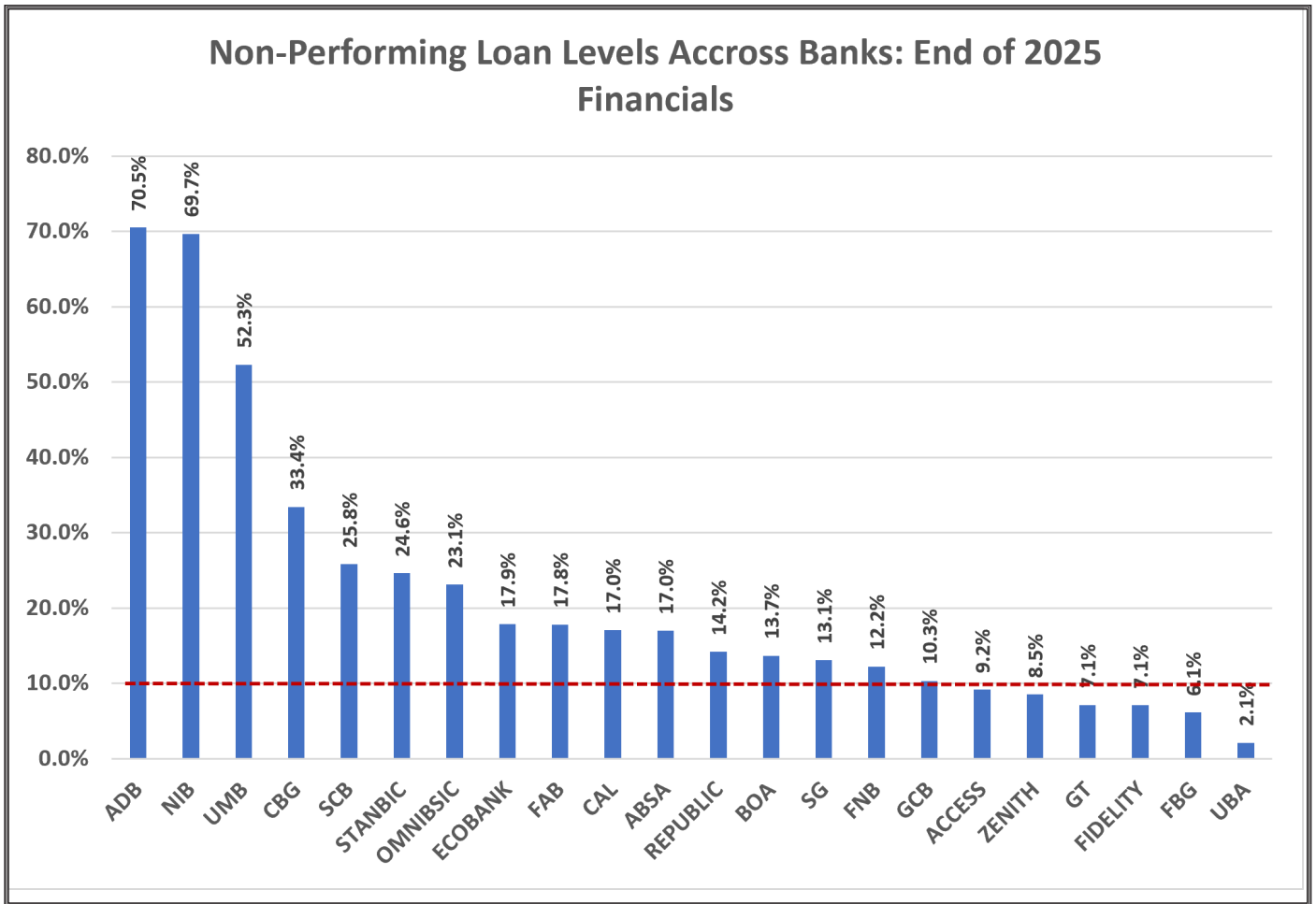
Overall, the evidence suggests that although asset quality is improving, the pace of improvement may not be sufficient to achieve the prudential targets within the stipulated period. The persistence of elevated NPLs across many banks, together with the Bank of Ghana's own projection of a 16.3 percent industry NPL ratio by end-2026, indicates that additional time may be required for banks to sustainably reduce impaired assets through recoveries, restructuring, and improved credit performance.

Taken together, both the statistical evidence and the cross-sectional data point to a clear and consistent conclusion: non-performing loans remain structurally high within Ghana's banking sector, and the challenge is far from resolved.








Figure 2 presents on the NPL valued of the banks at the end of 2025 financial year compared to the expected prudential limit of 10% at end of 2026.



Figure 2: Non-Performing Loan Across Banks - 2025



Source: Constructed by the Ghana Association of Banks Using Banks' Audited Financials for 2025(End of Year)

 NPL Band (2025)	 Number of Banks	 Supervisory Interpretation
 Below 10%	<b>6</b>	Already compliant
 10% – 15%	<b>5</b>	Moderate adjustment required
 15% – 25%	<b>6</b>	Significant remediation required
 Above 25%	<b>5</b>	Structural or legacy asset resolution required

The distribution of NPL ratios across banks highlights the uneven nature of the industry's adjustment challenge. While a number of institutions have already attained prudential compliance or are within close reach of the target, others continue to manage significant legacy asset quality issues that may require longer resolution horizons. This heterogeneity suggests that a uniform implementation approach may not fully reflect underlying differences in portfolio composition, historical asset quality challenges, and sectoral exposures. Consequently, a more differentiated supervisory framework may facilitate sustainable progress while preserving incentives for prudent credit intermediation.

### 1.3. Understanding the Structural Nature of the NPL Problem

The persistence of elevated NPLs suggests that the problem is not merely cyclical or confined to a subset of poorly managed institutions. Rather, it reflects a combination of structural and macroeconomic factors that continue to shape credit risk dynamics in Ghana.

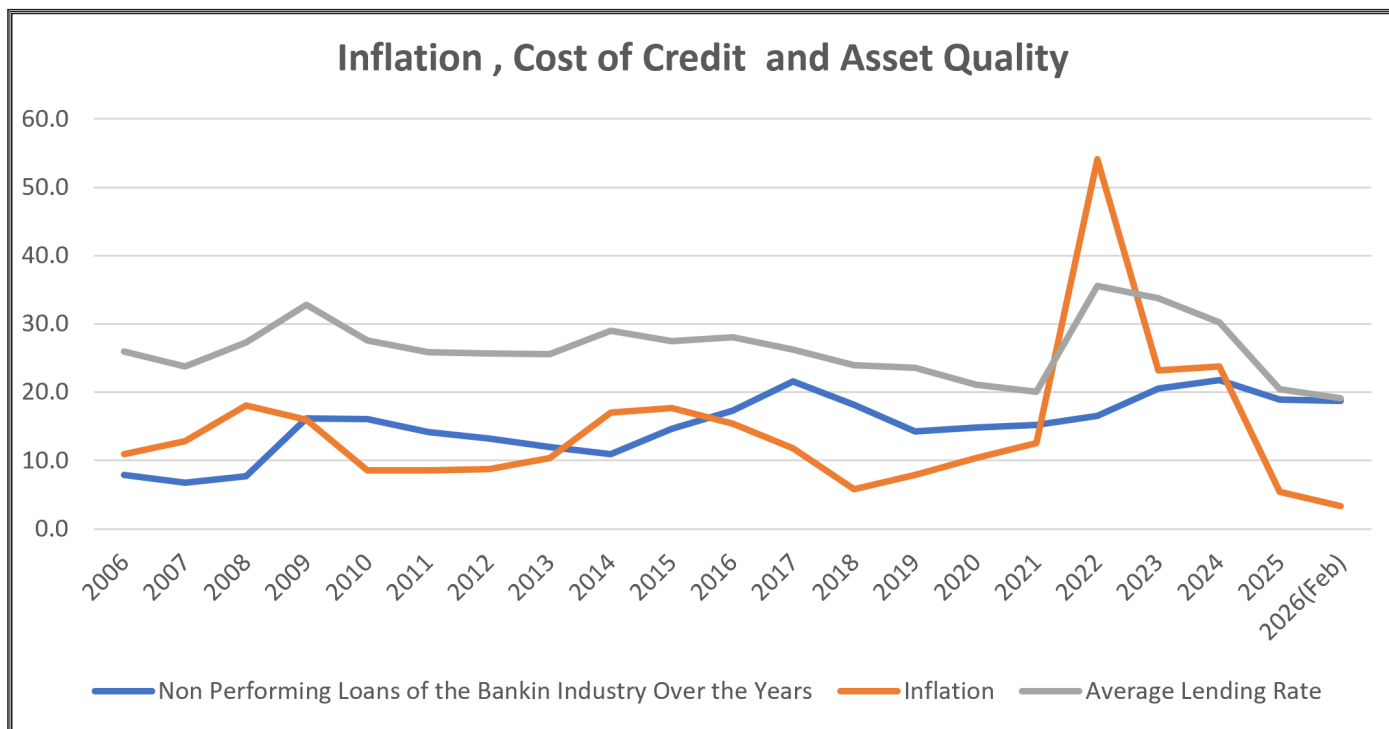
Macroeconomic conditions have played a particularly important role in past seven years, particularly post Covid-19, as shown in figure 3. Periods of high inflation, exchange rate

volatility, and elevated interest rates have significantly increased the cost of borrowing and weakened the repayment capacity of households and businesses. These conditions have been especially challenging for small and medium-sized enterprises, which often operate with limited financial buffers and are highly sensitive to economic shocks.

In addition to macroeconomic pressures, structural weaknesses within the financial system have also contributed to the persistence of NPLs. The historical evolution of NPLs in Ghana also suggests a strong relationship between asset quality and macroeconomic conditions. Periods characterised by elevated inflation, high lending rates, exchange rate volatility, economic slowdowns, and fiscal stress have generally coincided with deterioration in borrower repayment capacity. SMEs, import-dependent businesses, contractors, agricultural enterprises, and firms exposed to delayed receivables are particularly vulnerable to such conditions. In addition, delays in the settlement of government-related obligations, particularly during periods of political transition, can create liquidity pressures that affect the ability of contractors and suppliers to meet debt obligations. These include gaps in credit underwriting practices, particularly in high-risk segments, as well as limitations in the availability and use of credit information to aid underwriting decisions.



Figure 3: Inflation, Cost of Credit and Asset Quality (2006 -2026)



Source: Constructed by the Ghana Association of Banks using monthly NPL series from Bank of Ghana Online Database Portal

Furthermore, structural inefficiencies in the legal and judicial framework for debt recovery continue to pose significant challenges. Lengthy court processes, difficulties in enforcing collateral, and limited development of secondary markets for distressed assets all serve to delay the resolution of non-performing loans and reduce recovery rates.

These factors collectively imply that while regulatory tightening is necessary to enforce discipline, it is unlikely to be sufficient on its own to deliver a sustained reduction in NPLs. Addressing the problem requires a broader and more integrated approach that tackles both the symptoms and the underlying causes of credit risk.

## 2.0. The Sectoral Distribution of NPLs and what it means

The sectoral distribution of non-performing loans (NPLs) reveals that credit quality challenges in Ghana’s banking sector remain concentrated in a few key sectors of the economy. The Services

sector continued to account for the largest share of industry NPLs, increasing from 26.27% in December 2024 to 29.05% in December 2025. This suggests that despite the sector’s dominant contribution to economic activity, many service-oriented businesses continue to face operational and cash flow constraints that affect their ability to meet debt obligations. The sector’s growing share of NPLs may also reflect its substantial exposure to bank credit relative to other sectors.

Commerce and Finance remained the second-largest contributor to NPLs, accounting for 23.79% of total impaired loans in 2025, up marginally from 23.23% in 2024. Together, the Services and Commerce & Finance sectors contributed more than half of all NPLs in the banking industry, highlighting the concentration of credit risk within the predominantly urban and trade-driven segments of the Ghanaian economy. The persistence of elevated NPLs in these sectors may be linked to exchange rate volatility, high financing costs, and subdued consumer purchasing power, which can

adversely affect business revenues and loan repayment capacity.

An evident increase was also recorded in the Construction sector, whose share of NPLs rose from 11.37% to 13.86%. This development may reflect delayed payments on contracts, liquidity constraints among contractors, and the lingering effects of fiscal consolidation measures that have moderated public sector spending. Given the banking sector's significant exposure to construction and infrastructure-related activities, the rising NPL burden in this sector warrants close monitoring.

Similarly, Agriculture, Forestry and Fishing increased its contribution from 8.20% to 10.60%. The rise may be attributed to sector-specific challenges such as adverse weather conditions, input cost pressures, post-harvest losses, and fluctuations in commodity prices. Although agriculture remains a strategic sector for economic transformation and food security,

its inherent vulnerabilities continue to pose credit risk challenges for lenders.

In contrast, the contribution of Transport, Storage and Communication declined significantly from 14.35% to 10.52%, representing the largest reduction among all sectors. Manufacturing also recorded an improvement, with its share of NPLs falling from 9.34% to 7.46%. These developments may indicate improved repayment performance, loan recoveries, restructuring efforts, or stronger business conditions within these sectors during the review period.

Mining and Quarrying experienced an increase in its contribution to NPLs from 1.58% to 2.88%, although its overall share remains relatively small. Meanwhile, the Electricity, Gas and Water sector and the Miscellaneous category recorded notable declines in their contributions to total NPLs, suggesting improvements in asset quality or reductions in sectoral credit exposure.

**Table 1: Sectoral Contribution to Non-Performing Loans (NPLs) (%)**

Sector	Dec-24 (%)	Dec-25 (%)	Change (Percentage Points)	Credit Outstanding in Dec-25 (GHS Million)
Services	26.27	29.05	+2.78	31,357.56
Commerce & Finance	23.23	23.79	+0.56	13,990.81
Construction	11.37	13.86	+2.49	7,945.59
Agriculture, Forestry & Fishing	8.20	10.60	+2.40	3,876.25
Transport, Storage & Communication	14.35	10.52	-3.83	5,894.92
Manufacturing	9.34	7.46	-1.88	10,172.30
Mining & Quarrying	1.58	2.88	+1.30	2,573.79
Miscellaneous	3.18	1.18	-2.00	4,594.82
Electricity, Gas & Water	2.48	0.66	-1.82	4,145.95
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	—	<b>84,552.00</b> <i>(90.08% of the total credit outstanding as at Dec-25)</i>

Source: Bank of Ghana

Overall, the sectoral composition of NPLs suggests that credit quality challenges in Ghana's banking sector remain concentrated in Services, Commerce and Finance, Construction, and Agriculture. Collectively, these four sectors accounted for approximately 77% of all NPLs in 2025. However, caution must be exercised when interpreting these figures, as the table presents each sector's contribution to total industry NPLs rather than the ratio of NPLs to credit extended within each sector. Further, a sector's high contribution to total NPLs does not necessarily imply that it is the riskiest sector from a credit quality perspective.

The inclusion of sectoral credit outstanding data provides important context for interpretation. For instance, the Services sector accounted for the largest share of NPLs but also received the highest volume of bank credit, amounting to GHS31.36 billion as at December 2025. Similarly, Commerce and Finance recorded substantial NPL contributions while accounting for nearly GHS14 billion in outstanding credit. In such cases, higher NPL contributions may partly reflect larger lending exposures rather than disproportionately weak repayment performance. Conversely, some sectors with relatively smaller credit allocations, such as Agriculture, Forestry and Fishing, and Construction, recorded increasing shares of industry NPLs, which may warrant closer monitoring from a credit risk management perspective.

A more comprehensive assessment of sectoral risk would therefore require an analysis of sector-specific NPL ratios, which relate impaired loans to the volume of credit extended to each sector. Nonetheless, the current distribution highlights where impaired assets are concentrated within

the banking system and underscores the need for banks to strengthen sector-specific credit underwriting, monitoring, and recovery strategies. It also reinforces the importance of macroeconomic stability, lower borrowing costs, and sustained growth in productive sectors to improve loan performance and support banking sector resilience. This makes it imperative to tackle NPLs strategically and sustainably in order to strike an appropriate balance between maintaining asset quality and supporting the flow of credit needed to drive economic growth.

## 2.1. Procyclicality and Credit Supply Considerations

A further policy consideration relates to the potential procyclical effects of rapid NPL reduction requirements. While improving asset quality remains a legitimate prudential objective, requiring banks to achieve significant reductions in NPL ratios within a compressed timeframe may unintentionally weaken the very economic conditions necessary for sustainable recovery. In an environment where lending rates remain relatively elevated and many borrowers are still recovering from recent macroeconomic shocks, aggressive NPL reduction measures could encourage banks to adopt excessively conservative lending practices. Such actions may reduce the availability of credit to households and businesses, constrain investment activity, and weaken borrower cash flows, thereby creating conditions that could contribute to a second-round deterioration in asset quality. In this regard, an overly rigid NPL compliance framework may inadvertently reinforce the same credit risks it seeks to mitigate.

## 2.2. Legal and Institutional Constraints to NPL Resolution

These dynamics could manifest through several transmission channels. Banks may respond by reducing their lending appetite, increasing credit risk premiums, shortening loan maturities, imposing more stringent collateral requirements, or concentrating lending on lower-risk customer segments. In some cases, institutions may scale back exposure to sectors traditionally associated with higher credit risk, including SMEs, agriculture, construction, and other productive sectors that play an important role in employment creation and economic growth. The resulting reduction in working capital availability and investment financing could moderate economic activity and slow the pace of recovery, ultimately affecting borrower repayment capacity and delaying the achievement of long-term asset quality objectives.

In sectors where borrowers remain fundamentally viable but continue to experience temporary cash flow constraints, aggressive recovery actions may inadvertently accelerate business closures, reduce employment, and weaken economic activity. This is particularly relevant for sectors such as SMEs, construction, agriculture, and trade, where continued access to financing often plays a critical role in supporting recovery and preserving productive capacity.

While banks remain committed to improving asset quality, the resolution of non-performing loans is often constrained by legal and institutional factors that operate beyond the direct control of individual institutions. In many cases, the recovery of impaired assets depends on judicial processes, collateral enforcement mechanisms, insolvency proceedings, and broader market conditions, all of which can significantly extend resolution timelines.

Furthermore, the legal and institutional mechanisms required to resolve many legacy NPLs operate on a significantly longer cycle than the proposed supervisory timeline. While banks can strengthen recovery efforts, increase provisioning, and improve credit monitoring practices, the ultimate resolution of impaired assets often depends on external processes that cannot be accelerated solely through managerial effort. This reality reinforces the need for a transition framework that aligns supervisory expectations with the practical timelines associated with sustainable NPL resolution.



Rapid NPL reduction requirements may also encourage accelerated disposal of distressed assets under unfavourable market conditions. Where secondary markets for impaired loans and repossessed assets remain relatively shallow, forced disposals may occur at significant discounts to underlying economic value. Such outcomes could reduce recovery rates, weaken bank balance sheets, and impair the broader objective of maximising value recovery from distressed exposures. In sum, the resolution of impaired assets is inherently a process rather than a discrete event. Large exposures frequently require negotiation, restructuring, legal enforcement, collateral realization, or court-mediated settlements, all of which operate within timelines that are often outside the direct control of financial institutions. Similarly, write-offs may be subject to regulatory approval requirements, while the secondary market for distressed assets remains relatively underdeveloped. These realities mean that the speed of NPL resolution is not solely determined by institutional effort but also by the effectiveness of supporting legal, regulatory, and market infrastructure.

In addition, continued enhancement of the Collateral Registry framework would improve the enforceability, transferability, and realization of pledged assets, thereby supporting more effective NPL recovery efforts.

Beyond judicial constraints, the market infrastructure required to facilitate efficient NPL resolution remains relatively underdeveloped. The secondary market for distressed assets and repossessed collateral remains limited, reducing opportunities for banks to dispose of impaired exposures efficiently. Similarly, insolvency and corporate restructuring

mechanisms are not yet sufficiently deep or widely utilized to support large-scale balance-sheet rehabilitation. In sectors such as construction and public procurement, delayed payments and public-sector arrears may further weaken the repayment capacity of otherwise viable borrowers, thereby prolonging loan recovery efforts.

## 2.3. Recognition of Recovery Pipelines and Execution Progress

In assessing progress toward industry NPL reduction objectives, consideration may be given to a broader set of supervisory indicators beyond headline NPL ratios. Such indicators may include the strength of recovery pipelines, restructuring outcomes, loan cure rates, successful collateral realization efforts, reductions in new NPL formation, and progress on approved remediation plans. This would allow supervisory assessments to better reflect the underlying trajectory of asset quality improvement rather than relying solely on static point-in-time ratios.

## 3.0. Policy Considerations: Timing and Implementation Risk

Against this backdrop, the requirement for banks to achieve an NPL ratio of 15% by the end of June 2026 and not more than 10 percent by December 2026 raises important questions regarding feasibility and potential unintended consequences. While the objective

is appropriate and is expected to sanitize the statistics on asset quality in the financial system, the timeline for achieving it may not fully reflect current realities within the banking sector; at the barest minimum it may not be achieved sustainably.

Given the prevailing distribution of NPLs across banks, many institutions would need to undertake substantial adjustments to meet the target within the specified timeframe. This raises the possibility that banks may resort to aggressive strategies, such as accelerated loan write-offs, unconstrained risk asset padding etc. in order to comply with regulatory requirements. While these actions may improve headline NPL ratios in the short term, they may not necessarily reflect genuine improvements in underlying asset quality.

More importantly, such measures could have broader implications for the economy. Banks may be tempted to aggressively expand lending to increase their loan base and artificially lower NPL ratios. As a result, credit growth may rise

as banks will rather lend without necessarily improving the quality or efficiency of credit allocation. There is also a risk that overly rigid risk enforcement mechanisms could introduce pro-cyclicality into the financial system, amplifying existing economic pressures rather than mitigating them.

These considerations highlight the importance of adopting a balanced approach that preserves the integrity of the regulatory framework while allowing sufficient flexibility for banks to adjust in an orderly and sustainable manner.

The ultimate objective of prudential policy should be the sustainable improvement of asset quality rather than mechanical compliance with a numerical threshold. While lower NPL ratios remain desirable, the path to achieving them matters. Measures that improve recoveries, strengthen borrower rehabilitation, reduce new NPL formation, and preserve productive economic activity are likely to generate more durable outcomes than approaches that prioritise rapid ratio adjustment without addressing underlying structural constraints.



## 3.1. Policy Position and Recommendations







The introduction of clear prudential limits, enhanced supervisory oversight, and stricter enforcement mechanisms represents a critical step toward building a more resilient banking system and safeguarding financial stability. These measures have the potential to strengthen asset quality, improve risk management practices, and reinforce public confidence in the banking sector.

At the same time, the evidence presented in this brief suggests that a more flexible and context-sensitive implementation timeline may be necessary to ensure the long-term effectiveness of these measures. In particular, consideration should be given to adopting a calibrated transition framework that aligns supervisory expectations with the industry's projected adjustment path, while preserving incentives for sustained improvements in asset quality. While the objective of reducing NPLs to 10 percent remains desirable, the current deadlines may prove overly ambitious when assessed against prevailing sectoral realities and the Bank of Ghana's own forward-looking assessments.

Notably, the Bank of Ghana's latest financial stability stress testing results indicate that, even under baseline conditions characterized by a favourable macroeconomic environment and the successful implementation of the NPL reduction strategy, the industry NPL ratio is

projected to decline to 16.3 percent by end-December 2026. This projection suggests that the banking sector NPL, on average, is expected to remain above both the June 2026 threshold of 15 percent and the December 2026 target of 10 percent. Consequently, requiring banks to attain these thresholds within the current timeframe may impose significant pressures on credit intermediation and could incentivize excessive risk aversion, particularly toward sectors that are critical to economic growth but historically associated with higher credit risk.

Against this backdrop, it is recommended that the implementation timelines be reviewed to better align regulatory expectations with the industry's projected path of adjustment. Specifically, the end-2026 NPL threshold should not be set below the Bank of Ghana's baseline industry projection of 16.3 percent, while the timeline for achieving the 15 percent and 10 percent thresholds should be extended accordingly as proposed in the table below.

 Period	 Proposed Industry Target / Threshold	 Supervisory Objective
 End-2026	Approximately 15% (aligned with BoG baseline projection of 16.3%)	Stabilisation and sustainable adjustment
 June-2027	10%–13%	Accelerated remediation and recovery
 End-2027	Progress toward 10%	Full convergence supported by structural reforms

Moreover, sectoral composition of non-performing loans, as presented in Table 1, also suggests that a more targeted supervisory approach may be favourable. The concentration of NPLs in the Services, Commerce and Finance, Construction, and Agriculture sectors, which collectively account for more than three-quarters of industry NPLs, indicates that asset quality challenges are closely linked to sector-specific economic conditions rather than solely to bank-level credit risk management practices. Many of these sectors continue to face structural constraints, including high operating costs, elevated borrowing rates, exchange rate volatility, delayed payments, and weather-related risks in the case of agriculture. Consequently, a uniform approach to NPL reduction may not adequately reflect the varying risk exposures and portfolio compositions across banks.

In this regard, supervisory assessments should place greater emphasis on the underlying drivers of NPLs within individual institutions, including the sectoral concentration of their loan portfolios. Banks with significant exposure to sectors that are experiencing temporary economic stress may require a different adjustment path from those whose asset quality challenges stem primarily from weak underwriting standards or deficient risk management practices. Such an approach would enable regulatory measures to support sustainable reductions in NPLs while preserving the banking sector's capacity to provide credit to productive sectors that are critical to Ghana's economic growth and employment creation.

Further, consideration should also be given to streamlining regulatory processes associated with NPL resolution, including write-off

approvals and collateral realization procedures. More efficient administrative processes could facilitate faster balance-sheet clean-up while preserving appropriate supervisory oversight.

Beyond regulatory considerations, addressing the structural drivers of NPLs remains essential. Strengthening the legal and institutional framework for debt recovery, improving the efficiency of the judicial process, and promoting the development of a market for distressed assets would significantly enhance banks' ability to manage and resolve non-performing loans.

Moreover, while elevated non-performing loans (NPLs) are often framed purely as a systemic weakness, they can also serve as a catalyst for financial innovation and market deepening. Persistently high NPL levels create a strong case for developing structured solutions such as securitization, factoring, and the establishment of a secondary market for distressed assets.

Through securitization, banks can transfer impaired assets into Special Purpose Vehicles (SPVs), thereby offloading risk and freeing up capital to support new lending. Similarly, factoring arrangements allow specialized institutions to assume and manage distressed receivables more efficiently. The creation of an active secondary market for NPLs would further enhance price discovery, liquidity, and risk dispersion within the financial system.

With deliberate policy coordination, regulatory clarity, and stakeholder consultation, these mechanisms can significantly broaden the architecture of Ghana's financial sector. Importantly, they provide much-needed balance sheet relief for banks, reduce the burden of

excessive provisioning, and enable more efficient allocation of credit. In effect, what appears to be a constraint can be transformed into an opportunity to strengthen financial intermediation and resilience.

At the same time, policies aimed at promoting macroeconomic stability and supporting key sectors of the economy will be critical in reducing the incidence of loan defaults.

Beyond supervisory measures, industry-wide collaboration can play an important role in supporting sustainable reductions in NPLs. Consideration may be given to periodic industry forums focused on emerging credit risks, sectoral stress developments, borrower behaviour, recovery challenges, and workout strategies. Such collaboration, conducted within applicable legal and confidentiality requirements, could improve early-warning capabilities, strengthen credit discipline, and facilitate the sharing of best practices in NPL management and recovery.

## 3.2. Conclusion

Non-performing loans remain a central and persistent challenge in Ghana's banking sector, with significant implications for financial stability, bank performance, and economic growth. While the reforms introduced since the 2018 clean-up have strengthened the system in important ways, both empirical evidence and recent bank-level data indicate that the problem of NPLs has not been sustainably resolved.

The measures introduced by the Bank of Ghana are both timely and necessary. However, their ultimate success will depend on careful and balanced implementation that takes into account current industry conditions and broader macroeconomic realities. Indeed, the target is desirable; however, a sustainable reduction in NPLs requires a sequencing strategy that aligns prudential objectives with macroeconomic realities, sectoral credit needs, and the banking sector's capacity for adjustment

A policy approach that combines strong regulatory discipline with realistic timelines and structural reforms will be essential to achieving a durable reduction in NPLs. Such an approach will not only enhance the resilience of the banking sector but also ensure that it continues to play its critical role in supporting Ghana's long-term economic transformation.

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