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Profits and risks of banks in Ghana:
A case for permanent bank taxation

Dr. Sajid M. Chaudhry; Epiphany Anaba
Accounting and Finance Department, Aston Business School, Aston University, UK

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Abstract
We examine the impact of bank taxation on the profits and risk of banks in Ghana for the period 2007 to 2021. We focus on profitability measures such as Return on Assets (ROA) and Return on Equity (ROE) and risk measures such as standard deviation of ROA. Our results show that profitability levels of banks are largely unaffected by bank taxation. However, our difference-in-difference analysis show that this effect is more pronounced for foreign banks in Ghana. Also, we find that bank tax does not significantly impact the risk levels of banks in Ghana. We recommend the imposition of a bank tax as a sustained source of revenue. More specifically, we propose a 2% tax on banks total liabilities net of equity and insured deposits for the long term. Alternatively, a 10% profit before tax could be levied and a 1% tax on treasury investment.

Introduction
Globally, taxation of banking sector generates a reliable source of revenue for development activities. Bank taxes provide a significant source of revenue to boost economic activities, enhance financial stability and discourage excessive risk-taking behaviour by banks (Chaudhry, 2025). In developed economies, bank taxes have been widely implemented to avert the re-occurrence of financial crisis and to discourage high risk behaviours among financial institutions. The widespread adoption of bank taxation in developed countries is largely attributed to the increasing profit levels of banks (Association of Financial Markets in Europe, 2026). A recent press release from the Association of Financial Markets in Europe (AFME, 2026) highlights that, banks operating in UK are subject to a total tax of 46.4% slightly higher than the tax rates in Netherlands (42.2%) and Germany (38.9%).

Although several developed economies have implemented bank levies, evidence on the implementation of this tool in developing economies particularly in Africa is lacking. In Africa, only one country (i.e., Ghana) has introduced in a bank levy in the form of a National Fiscal Stabilisation Levy (Chaudhry, 2025).[1]The objective of the National Fiscal Stabilisation Levy is to raise funds for the fiscal stabilization of the Ghanaian economy (PWC, 2013). We empirically examine the impact of the NFSL on the profits and risk of banks in Ghana for the period 2007 to 2021. To measure the profit levels of banks, we use the accounting-based metrics such ROA and ROE. These two measures are complementary and provide a complete picture of the financial performance of banks. Also, these measures of bank profitability have been widely used in the literature (Ofoeda, 2017; Adusei, 2011; Huang, 2020). We calculate the risk of banks using the standard deviation of ROA consistent with prior studies (Li et al., 2021; Cheng, 2008; Wright et al., 2007). Our results show that bank tax (NFSL) has an insignificant impact on the profitability levels of banks in Ghana. Also, our results reveal that bank tax (NFSL) does not significantly impact the risk levels of banks in Ghana.

Trend analysis
In this section, we present a trend analysis of bank profitability and risk measures of Ghanaian banks in comparison to similar economies such as Nigeria, Kenya, Angola and Cote d'Ivoire. The trend analysis in Fig.1 reveals higher and volatile levels of net interest margin for Ghana. Also, the trend analysis in Fig. 2 shows a steady ROA performance in the Ghanaian banking industry. The trend analysis in Fig. 3 depicts a consistent high performance among banks, particularly GCB Bank, ABSA and Ecobank. Regarding the Z-score of banking industry, Fig. 4 shows a fairly stable Ghanaian banking industry.

[1] *The NFSL is a 5% levy on profit before tax of companies and institutions including banks, non-bank financial institutions, insurance companies, telecommunication companies and breweries.*

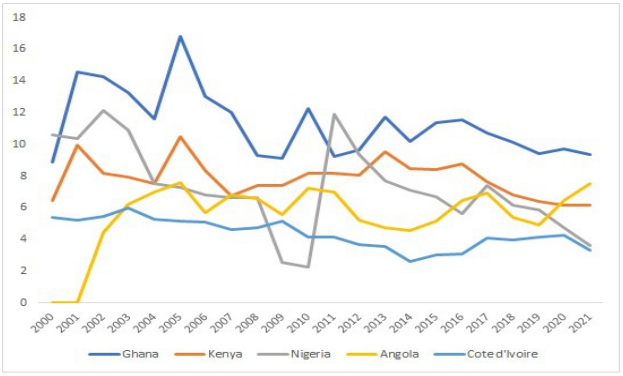


Fig. 1 Net interest margin (%), 2000-2021. ***Source:*** *World Bank*

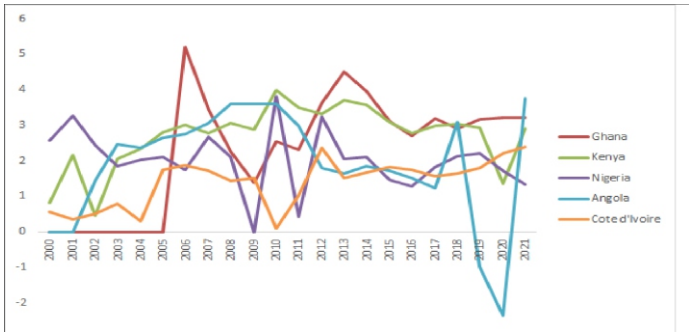


Fig.2 Return on Assets (%) 2000 to 2021. Source: World Bank and FRED

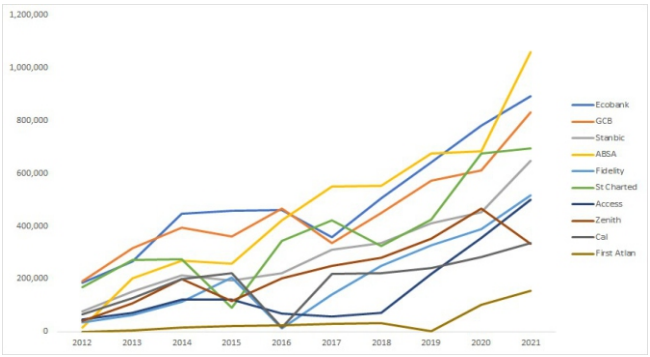


Fig. 3 Historical performance of big ten banks (profit before tax) in thousand GHS. ***Source:*** *Orbis*

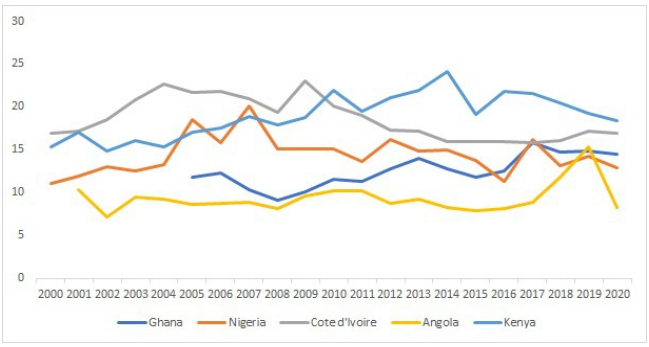


Fig. 4 Z-score of Ghanaian banking sector compared to other similar countries.

Main results

This section presents the regression analysis on the effect of bank tax on profitability and risk levels.

Table 1: The effect of bank levy on return on assets (ROA)

Variables	ROA	ROA	ROA	ROA
Ghanaian banks (GB)	0.559	0.732*	0.205	0.205
	(0.407)	(0.399)	(0.454)	(0.575)
Post treatment (PT)	0.0501	-0.403**	-2.638***	-2.638***
	(0.170)	(0.182)	(0.610)	(0.501)
Treated (GB*PT)	-1.369***	-1.531***	-1.910***	-1.910***
	(0.439)	(0.426)	(0.415)	(0.407)
Size	0.0307	0.0446	0.0926	0.0926
	(0.0959)	(0.0927)	(0.100)	(0.145)
Equity to assets	0.0452***	0.0349***	0.0361***	0.0361***
	(0.00846)	(0.00838)	(0.00835)	(0.0169)
Cost to income	-0.0630***	-0.0649***	-0.0621***	-0.0621***
	(0.00190)	(0.00187)	(0.00183)	(0.00541)
Loan loss reserve to gross loans	-0.0491***	-0.0604***	-0.0840***	-0.0840
	(0.00860)	(0.00888)	(0.00881)	(0.0211)
Loan loss reserves to impaired loans	0.00155	0.000808	-0.00111	-0.00111
	(0.00101)	(0.000988)	(0.000985)	(0.00131)
Deposit to loans	-0.00803***	-0.00619***	-0.00454***	-0.00454
	(0.00177)	(0.00176)	(0.00169)	(0.00391)
Net interest margin	0.164***	0.150***	0.163***	0.163***
	(0.0184)	(0.0179)	(0.0177)	(0.0308)
Cash	0.102	0.0466	0.0235	0.0235
	(0.0766)	(0.0744)	(0.0750)	(0.100)
Liquid assets to total assets	0.0170***	0.0156***	0.0130***	0.0130
	(0.00226)	(0.00223)	(0.00219)	(0.00426)
CPI		0.00272***	0.00590***	0.00590***
		(0.000822)	(0.00127)	(0.00194)
GDP growth		-0.0649***	-0.0801***	-0.0801***
		(0.0232)	(0.0307)	(0.0276)
Constant	2.497***	3.441***	4.027***	4.027**
	(0.820)	(0.826)	(1.046)	(1.796)
Observations	1,342	1,324	1,324	1,324
R-squared	0.624	0.647	0.687	0.687
Time FE	No	No	Yes	Yes
Firm FE	No	No	No	Yes
Country FE	No	No	Yes	Yes

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 2: The effect of bank levy on return on equity (ROE)

Variables	ROE	ROE	ROE	ROE
Ghanaian banks (GB)	7.600***	7.756***	5.919**	5.919
	(2.448)	(2.420)	(2.748)	(4.927)
Post treatment (PT)	-0.285	-0.0101	-15.17***	-15.17***
	(1.033)	(1.110)	(3.690)	(3.981)
Treated (GB*PT)	-10.61***	-10.27***	-12.71***	-12.71***
	(2.641)	(2.583)	(2.512)	(3.183)
Controls	Yes	Yes	Yes	Yes
Observations	1,327	1,309	1,309	1,309
R-squared	0.545	0.567	0.617	0.617
Time FE	No	No	Yes	Yes
Firm FE	No	No	No	Yes
Country FE	No	No	Yes	Yes

*Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 3:The effect of bank tax on risk of banks

Variables	SD-ROA	SD-ROA	SD-ROA	SD-ROA
Ghanaian banks (GB)	0.212	0.425	-1.726***	-1.726***
	(0.298)	(0.290)	(0.325)	(0.638)
Post treatment (PT)	-0.00201	-0.365***	0.693	0.693
	(0.125)	(0.132)	(0.436)	(0.431)
Treated (GB*PT)	0.120	-0.0719	0.196	0.196
	(0.321)	(0.309)	(0.297)	(0.263)
Controls	Yes	Yes	Yes	Yes
Observations	1,338	1,320	1,320	1,320
R-squared	0.351	0.377	0.465	0.465
Time FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes

*Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Conclusion

Our findings suggest that there should be both taxation and regulation of banks in Ghana. Taxing risky liabilities, taxing profits and taxing investment securities will provide Ghana with a sustained source of revenue. A tax on total liabilities net of equity and insured deposits for big banks with a balance sheet size of GHS7,000 million to start with could be 2% of total liabilities net of equity and insured deposits. A tax on liabilities will be particularly helpful when banks are bigger, riskier and earning even more profit in future. Additionally, a tax on total liabilities net of equity and insured deposits will act as a catalyst for banks to reduce reliance on short-term funding and help reduce bank risk in the long term. Also, a 5% tax on the profit before tax of big 10 banks could yield approx. GHS 264 million (5279*0.05). Further, a tax on treasury securities (say 1%) will yield GHS 577 million (short term). For regulation, there is the need to regulate interest paid on deposits and received on loans.

Appendix A. *Numbers supporting the proposed taxing of liabilities (long term) based on 2021 numbers in million GHS*

	Deposits	Other liabilities	Borrowings	Emp ben obligations	Total liabilities	Tax (2%)
Ecobank Ghana	19,713	1,102	2,352	0	7,003	70.03
GCB	13,155	647	988	113	4,116	41.16
Stanbic Bank	9,937	662	0	0	2,450	24.50
ABSA	7,944	958	4,307	99	6,953	69.53
Fidelity	8,081	238	3,549	0	5,403	54.03
Standard Chartered	7,554	496	240	0	2,247	22.47
Access	4,623	104	790	0	2,374	23.72
Zenith	6,391	600	155	0	2,672	26.72
Cal	5,162	140	2,214	0	3,387	33.87
First Atlantic	899	31	0	0	211	2.11
Total						**368.15**

Appendix B. *Numbers supporting the proposed taxing of treasury investments (short-term) based on 2021 numbers in million GHS*

	Investment	Tax (1%)
Ecobank	6560	65.60
GCB	9765	97.65
Stanbic	5185	51.85
ABSA	3541	35.41
Fidelity	7692	76.92
Standard Chartered	3761	37.61
Access	3580	35.80
Zenith	4488	44.88
Cal	4946	49.46
First Atlantic	820	82.00
Total tax		**577**

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