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# Enhancing Credit Monitoring Systems for Banks in Guyana: Liquidity and Reserve Requirements within the Banking System

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## *Abstract*

*This study evaluates the effectiveness of credit monitoring systems and the adequacy of reserves liquidity and provisioning requirements within Guyana's banking sector. Effective credit risk management is critical in modern financial systems, particularly in light of global concerns regarding problematic debt. Consistent with principles advanced by the Basel Committee on Banking Supervision (BCBS), the research assesses whether banks in Guyana adequately monitor individual credit exposures and maintain sufficient provisions to mitigate potential losses. Using a mixed-methods approach—including literature review, interviews, questionnaires, and field observations—the study examines regulatory oversight by the Bank of Guyana and compares domestic credit risk practices with international standards. It also analyzes trends in financial sector growth and shifts in risk appetite amid Guyana's rapidly expanding oil-driven economy. Key findings show a significant improvement in asset quality, with non-performing loans (NPLs) declining from 13.98% in 2016 to 3.57% in 2023. This reduction coincides with strong growth in performing loans, largely driven by economic expansion linked to the oil and gas sector. As of December 2023, the banking system remained highly liquid. Average liquid assets exceeded statutory requirements by 81% (G$148.8 billion). Licensed Deposit-Taking Financial Institutions (LDFIs) held G$332.6 billion in liquid assets, reflecting a 15.4% increase over December 2022. While this indicates financial strength, it also suggests excess liquidity potentially stemming from a conservative lending approach. Although banks utilize established credit assessment tools—such as CAMPARI, 4M Risk Analysis, credit scorecards, and SWOT analysis—challenges remain in regulatory enforcement, technological modernization, automation, and institutional capacity. An overly cautious lending stance may constrain credit growth and limit broader access to financing. The study recommends adopting advanced credit scoring technologies, strengthening regulatory frameworks, enhancing automation and capacity-building initiatives, and improving debt monitoring systems. It also calls for a sector-based risk assessment approach and a review of policies restricting private sector foreign borrowing. Overall a balanced strategy that strengthens risk management while improving credit accessibility is essential to support Guyana's continued economic transformation and financial stability.*

***Keywords:*** *Automation, Capacity Building, Credit Risk Management, Financial Sectors, Liquidity, Regulatory Gaps, Reserves, Risk Analysis, Risk Appetite.*

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## Introduction

A robust credit risk management framework enables financial institutions to enhance the quality of their lending decisions. Advanced algorithms and predictive models assess default probabilities, allowing for more accurate loan pricing and mitigation of risk associated with high-risk borrowers.

The Basel III Committee on Banking Supervision (BCBS) serves as the leading global authority for establishing prudential regulatory standards for banks. The BCBS emphasizes the necessity for banks to implement robust systems to monitor the status of individual credits, including assessing the sufficiency of provisions and reserves. Credit risk officers and financial professionals have adopted various strategies to effectively control and manage the credit risk associated with financial institutions.

Regulators and other stakeholders should monitor the quality of commercial banks' credit portfolios. High-quality lending leads to better financial outcomes and a stronger, more resilient economy, generating jobs and attracting policymakers' attention. Conversely, poor risk management increases the likelihood of financial problems, reputational damage, and even institutional collapse [20].

For the Banks, creation of loans contributes to the largest and the most obvious source of credit risk. Banks need to manage the inherent risk that is associated with their entire portfolio. Managing credit risk is a critical activity to ensure financial organizations long term success and viability. Banks need to be aware of changing economic conditions, political environments, changes in the markets and industries and take initiative-taking measures where necessary to address emerging risks. “Poor credit administration reduces bank’s profitability and leads to bank distress and or failure” [1]. “Risk monitoring is inherent in the banking business. The integration among the financial markets, increased globalization, emergence of new private sector banks and the rapid developments in financial technologies (Fintech) have contributed to the volatility of the interest rates, foreign currency exchange rates, and commodity prices. Banks must assess banking risks such as credit risk, market risk (interest rate risk, foreign exchange risk, and liquidity risk) and operational risk properly, evaluate effectively, measure correctly, monitored perfectly and managed as per banks’ desired policies” [4].

This study evaluates key variables influencing the relationship between credit risk monitoring and the administration of commercial bank debts. It explores the management of liquidity and reserve requirements, assessing their impact on non-performing loans within the banking sector. The analysis presents recommendations for improvement and effective practice, including strategies to optimize lending activities while ensuring financial sustainability and prudent oversight.

## Literature Review

As the banking sector expands in developing countries like Guyana, strong credit risk monitoring systems are essential. Credit risks, the chance a borrower defaults requires banks to have effective assessment and management frameworks. This literature review covers credit risk management methods, the need for proper provisions and reserves, and ways to enhance banks' monitoring systems.

According to [22], credit risk management involves processes and strategies used by banks to mitigate potential losses from borrowers who fail to repay loans. The primary goal is to safeguard the bank’s financial health by adequately assessing the creditworthiness of borrowers and by maintaining an appropriate level of reserves. As banks in Guyana grow, a structured credit risk management system becomes essential.

An efficient credit monitoring system is vital to managing credit risk. According to [13], the process includes continuous tracking of

borrowers' financial health and performance. Banks should implement early warning systems to identify potential defaults quickly. This initiative-taking monitoring can enhance overall credit quality and reduce losses. Guyana's banks must adopt such systems to respond effectively to changing economic conditions and borrower situations. [13] "Risk management is no longer confined solely to risk management specialists. Stakeholders ranging from employees to investors must understand how to quantify the tradeoffs of risk against the potential return. The failure to understand the essential nature of risk can have devastating consequences."

Provisioning and reserves are foundational components of credit risk management. The International Financial Reporting Standards (IFRS 9) emphasize the importance of expected credit loss (ECL) models, which require banks to maintain provisions based on the probability of default [14]. In the context of Guyana, where the economy may face volatility, it is crucial for banks to determine adequate levels of provisions and reserves. Failure to do so could lead to undercapitalization, putting the bank at risk during economic downturns.[16] undertook a study on the credit risk management of Spanish banks and found that the growth rate of economy, banks credit history, branch expansion of banks, managerial performance and efficiency, nature of credit portfolio, size and composition of portfolio, size of corporate, net interest margin, capital adequacy ratios were having bearing on risk on management and monitoring of credit at banks. [3] examined the efficiencies of the regional banks in the USA and found that the profit was dependent upon management of credit risk. [19] most of the commercial banks incurred losses due to credit risk.

Guyana's is taking steps to invite the presence of offices of foreign banks to bring international experience and technology that can complement and enhance the domestic banking system. This Act will pave the way to strengthen the financial sector. [18] added that the work done to build a robust legal architecture was already being done over the years by the Government and he noted that there is similar legislation in other territories such as Trinidad and Tobago. He also said given the rate of economic growth occurring today and the rate at which investor interest is growing, the amendment to the legislation is necessary as Guyana has already received indications of interest from foreign financial institutions and some of the largest in the world who have expressed this interest in establishing representative offices in Guyana [18].The banking and financial sector is critical as Government pushes to empower citizens to benefit from the massive economic transformation taking place across this country. Access to financing is a main pillar for the establishment of growth and success of both small- and large-scale businesses, as well as the economic empowerment of individuals and households. There is a need to review and examine the risk tolerance at Commercial Banks to support transformation and confidence with growth of the various sectors.

Banks in Guyana can be generally deemed conservative on granting credit and this by itself can be a hindrance to economic upscaling. Reviewing the risk is necessary in some sectors including and not limited to; mining and quarrying, marine/sea transportation, manufacturing, agricultural, entertainment, transportation, accommodation and tourism amongst others. These sectors pay the highest rate of borrowing a review is necessary by the regulators to ensure these industries are not stifled by the prohibitive cost of accessing capital. Syndicated funding model is also an option to risk sharing and provides greater bargaining options relevant to the cost of financing.

The new market for Oil and Gas activities is an area that has shown the highest growth and has placed the Guyana as the world's fastest growing economy. The industry will require

capital injection directly or indirectly or through local content participation. This is an area that Guyana financial sectors must focus on to develop legislations and measures since the country is new to this level of risk and monitoring exposure. Guyana's emerging upstream petroleum industry is set to receive technical assistance and practical learnings from Ghana as part of efforts to stimulate the development of its industry [12].

[11], law was enacted to simplifying the use of movable assets, such as equipment, inventory, crops, intellectual property, and receivables, as collateral thereby increasing credit access for SMEs, women entrepreneurs, and individuals without immovable property, fostering financial inclusion and economic empowerment. The lack of a centralized, efficient system for securing transactions involving movable assets has contributed to delays, inefficiencies and exclusion from formal credit markets.

## Current Practices

The growth of the banking sector in developing countries like Guyana brings about the need for effective monitoring systems to manage credit risk. Credit risk, the possibility that a borrower may default on a loan, poses significant challenges to banks, necessitating robust frameworks to assess and manage individual credits.

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## Research Methodology

The methodology for this study applied a mixed-methods approach, integrating both quantitative and qualitative research methods. Data collection emanated from both primary and secondary sources.

The primary data collection occurred through direct interviews and questionnaires. The secondary data collection included annual reports, interviews, circulars, reports, media articles, listening to speeches or seminars and a review of journals.

The population size consisted of a total of 42 questionnaires that were distributed of which six (6) each were sent to each bank and a total of 30 responses were received. The response rate was 71.45%. Guyana is small country with a population of eight hundred and seventy - eight thousand persons six hundred and seventy-four (878,674) residents. Guyana Census (2022). The country only have six (6) Banks and one (1) mortgage institution.

Through a mixed-methods approach, integrating both quantitative surveys, research and qualitative interviews, this thesis undertakes a comprehensive investigation into the credit risk tolerance and monitoring landscape in Guyana. It identifies patterns, strengths, weaknesses and areas for improvement while assessing the perceived effectiveness of current methodology for assessing risk from the various banking stakeholders and administrators. The research was multi-staged in nature. Quantitative analysis included descriptive statistics and time-series behavior to test differences in credit growth, non-performing loan ratios and provisioning levels, supplemented with survey-based ones on institutional risk tolerance and monitoring. Comparative analysis was then employed to look at differences in perceptions of risk across stakeholder groups.

Qualitative semi-structured interview information was analyzed with thematic coding and enabled the extraction of common themes, in relation to credit governance, monitoring

efficiency, managerial capacity and systemic limitations. These qualitative results were employed to illuminate and question the quantitative findings. An overarching analysis was then applied to perform a triangulation of these two strands of data in order to compare the incongruences between rapid sector expansion and institutional risk compare whether risk understanding mechanisms had adapted alongside growing dynamics. The study inquired into the role of effective management in optimizing program success, exploring best practices, and potential challenges. It fused findings to develop actionable recommendations for policymakers and financial institutions with the aim of enhancing credit and risk qualities and initiatives to strengthen the country's profile in credit risk management and portfolio monitoring within the banking sectors. It also examines the rate of growth versus the risk appetite amongst the financial sectors.

## Bank of Guyana (Central Bank) Financial Institution Framework Statues in Guyana

The research contained herein this paper focuses on how Banks in Guyana, South America conduct credit risk management. Several models of credit risk technique and assessment principles are used by the institutions in assessing credit. In Guyana banks perform lending assessments using different models; the CAMPARI Model, 4M Risk Analysis which is (Money, Management, Material, Market), Score Card, SWOT Analysis amongst others. There is also lending from the non- banking sector that is done by Co-operative Societies and Unions which are assessed on "membership basis" and is not subjective to any formal lending model but rather internal policies.[15] found that the credit risk management tools used by the banks were setting credit standards, using the credit scores, evaluating credit worthiness, applying risk rating and adequate collateral management.

The oversight and regulatory body of Guyana's banking sector falls under the purview of Bank of Guyana which is the Central Bank. It is constituted under the Financials Institutions Act of 1995. The Act outlines guiding principles and for specificity to the subject in discussion it is necessary to cite these two excerpt " a)Every licensed financial institution which takes deposits shall maintain a reserve fund and shall, out of its net profits of each year and before any dividend is declared, credited or paid, or before profits are remitted to the Head Office, transfer to the fund a sum equal to not less than fifteen percent of such profits whenever the amount of the reserve fund is less than the paid-up capital or assigned capital of the licensed financial" [6], impaired provisioning classification and reporting of overdrafts, loans, investments and other assets and contingencies which are past due, on which interest is not accruing, where the collection of principal or interest due is questionable or, doubtful, or which otherwise exhibit significant risks of collection; the writing off in whole or in part of loans, investments or other assets which are not collectible" [6].

Financial risks are inherent to the operations of the Bank and management of these risks is critical to the Bank's continuing profitability. The objective of the Bank's risk management policies and efforts is to minimize the effects of risks inherent to its operations. Risk management operates within a framework which involves the identification, assessment, and monitoring of risks through the application of various approaches which are guided by the Bank's policies. These risks are continuously monitored at directorate levels [7]. The Bank has exposure to the following risks from its use of financial instruments:

1. Market Risk
2. Credit Risk
3. Liquidity Risk.

## Assets Grading / Loan Provisioning Requirements

The Central Bank monitors the quality of its financial assets through use of an internal grading system representing management's best estimate of the credit risk for the counterparty based on available information. The grades used as follows: Grade Description (1) Superior – These institutions have been accorded the highest rating, indicating that the institution's capacity to meet its financial commitment on the obligation is extremely strong. (2) Desirable – These institutions have been accorded the second highest rating, indicating that the institution's capacity to meet its financial commitment on the obligation is extraordinarily strong. (3) Acceptable -These institutions have been accorded the third highest rating, indicating that the institution's capacity to meet its financial commitment is adequate. (4) Special monitoring – concern over counterparty's ability to make payments when due" [2]. The regulations stipulate that performing accounts are generally classified as either superior, desirable or acceptable with an overall rating band falling within pass or special mention or in borrower risk rating (BRR) rating level 1 and level 2.

In 2010 assented into Law the Credit Reporting Act which paved the way for information sharing amongst financial institutions with the intention that Banks would be able to screen borrowers more effectively and improve the mechanism and means of making good credit. The Act's purpose was "To be establish a credit reporting industry with the aim of enabling more dependable, competitive and responsible credit lending while protecting borrowers' rights." [8]. The Credit Reporting Act was amended in January of 2016 with the objective of improving the efficiency of the system. The Act was amended by the Credit Reporting (Amendment) Act No.2 of 2016 to improve its effectiveness [10].

## Active Loans vs Non-Performing Loan as % in Guyana's Banking Sector

In 2016 to 2020 that the NPL rate was 13.98% to 14.25% During 2021 to 2023 there was a significant decrease to 9.57% in 2021 to 3.57% in 2023 being the lowest in the eight (8) years period. During this period there was also the highest reported growth in loans and advances moving from $230.9 B in 2020 to $376.1B as at the end of 2023. It is also reflective that as the active portfolio grows there has been a reduction in NPL's rate. From 2016 to 2023 there was growth in active lending by 57.44% moving from $216.6B to $376.1B. [7], Risk Assessment as of December 31, 2023, the overall assessment of the banks' credit risk was 'moderate and decreasing'. One non-bank credit risk was rated as 'moderate and decreasing' while the others were rated as 'low and stable.' The LDFIs' concentration risk was assessed as 'moderate and stable.' The industry's top twenty borrowers to total loans ratio was 24.2% percent at end December 2023.

Though there is no single factor that may be responsible for the year-on-year growth of bad debts during 2016 to 2019 it could be assumed that the change of economic policies in Guyana that were introduced by the change of Government and policy makers in 2015 may have caused investors to be cautious and at the same time those changes brought about economic distress for some sectors and individuals. In 2020 there was also a further change in Government and we have seen from the report that growth in the performing loans and a reduction in the non-performing loans. [2] risks may threaten banks' survival and success. Some of these risks are at a macro level (for example, the negative effects of recession, political interference, and natural disaster), or at a micro level (for example credit risk, liquidity risk, foreign exchange risk and operational risk).

It can be drawn from the abstract that while Bank's are growing their assets with higher level of prudency in risk management controls

and analysis; this has been positively contributing to the declining rate of non-performing loans. The survey also reveals that some of the LDFI's have restructured non-performing loans to re-book as active loans since borrower's ability to repay has regained financial worthiness; hence banks have facilitated restructuring. One Bank reported zero rate NPL's, further insight into this LDFI will be done as it is an unusual within banking/ financial sector in Guyana.

## Maintaining Liquidity and Reserves in the Banking Sector

At end-December 2023, the financial sector remained highly liquid, with average liquid assets exceeding the statutory liquid assets requirement by 81% or G$148.8 billion [7]. The average level of liquid assets held by LDFIs at end-December 2023, amounted to G$332.6 billion, 16.8% or G$44.2 billion above the average level recorded for December 2022. Reserve requirements are required at 15% by LDFI's.

Given that we have examined the non-performing advances and the reserved requirements and liquidity within the banking system we will further examine gaps and recommendations within the sector.

## Gaps and in Credit Monitoring and Bank Development in Guyana

1. **Regulatory and Institutional Challenges** -The banking sector in Guyana operates under the supervision of the Bank of Guyana, which establishes regulations and monitoring frameworks. However, challenges persist in enforcing credit assessment and risk management policies. Studies by [20] highlight those developing economies, including Guyana, often face regulatory gaps that lead to inefficiencies in credit monitoring as compared with international practices.
2. **Credit Risk and Non-Performing Loans (NPLs)** -A major issue in Guyana's banking sector is the rising number of non-performing loans during 2016 to 2019. [23] suggests that during the period 2016 to 2019 changes in economic conditions contribute to high default rates. From a review of the reports by the Bank of Guyana for the years 2021 to 2023 the non-performing loan have shown a significant reduction due to the implementation of improved monitoring, enhanced risk management and adoption of new standards.
3. **Adequacy of Provisions and Reserves**- Provisions and reserves are essential for financial stability. According to [22] III guidelines, banks must maintain adequate capital reserves to absorb unexpected losses. Economies including Guyana, have maintain adequate provisions due to regulatory enforcement and adopted risk management frameworks.
4. **Technological and Data Limitations**- Financial technology plays a vital role in monitoring individual credits. Studies by [2] emphasize the importance of digital credit monitoring systems. However, many banks in Guyana rely on outdated manual processes which hinder efficiency and increase the risk of errors and fraud.
5. **Economic and Political Factors**- Macroeconomic instability and political influence can impact credit allocation and monitoring. Research by [8] on banking systems in developing countries highlights that government intervention in lending policies can lead to misallocation of credit and increased default risks. Unlike the above, Guyana banking system remains resilient and is supported by policies and tax incentives to support the Banks in the areas housing and agriculture.

## Best Practices for Credit Monitoring

1. **Implementation of Advanced Credit Scoring Models** - Adopting machine learning and AI-driven credit scoring

systems can improve risk assessment. Studies [6] suggest that predictive analytics enhance the accuracy of creditworthiness assessments, reducing default rates.

2. **Strengthening Regulatory Frameworks** - Developed countries have successfully implemented stringent Basel III compliance measures. Research by [13] indicates that enforcing higher capital adequacy ratios and stress testing can improve banking resilience.
3. **Automation and Digitalization** - Integrating blockchain and digital ledger technologies can enhance transparency and efficiency in credit monitoring. [9] reports that digital banking solutions have reduced fraud and improved credit monitoring in European financial institutions.
4. **Capacity Building and Training** - Ongoing training for bank staff in credit risk management, monitoring and financial technology is crucial. Studies by [14] suggest that skill development programs contribute to better credit monitoring and financial decision-making.
5. **Watch-listing of the Debts**- The need to enhance watch-listing of accounts and to apply early monitoring and diagnostics of debts that show signs of consistency in late or past due payments.

## Analysis of Findings

**Table 1.** Active Loans vs Non-Performing Loan as % in Guyana's Banking Sector

| **$G (BILLIONS)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year Ending** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** |
| Active/ Performing Loans | 216,662 | 222,280 | 212,250 | 204,810 | 230,920 | 286,875 | 328,868 | 376,119 |
| Non-Performing Loans | 30,286 | 28,970 | 29,737 | 30,114 | 32,905 | 27,459 | 20,116 | 13,445 |
| As Percentage (%) | 13.98 | 13.03 | 14.01 | 14.70 | 14.25 | 9.75 | 6.13 | 3.57 |

***Source:*** *Central Bank of Guyana Reports 2016 to 2023*

The table 1 above presents an analysis that includes trend analysis of loan performance indicators, ratio analysis of non-performing loans in relation to total loan portfolios, and a comparative assessment across years to analyze changes in credit quality over time. This quantitative research was enhanced by an interpretive review that connected observed changes to risk appetite, managerial efficacy and regulatory advancements in the banking sector.

The reduction in non-performing loans from 13.98% in 2016 to 3.57% in 2023 demonstrates a marked improvement in credit quality within Guyana's banking sector. This trend coincides with substantial growth in performing loans, primarily attributed to the expansion of the oil and gas industry and its favorable effects on the national economy. The "moderate and decreasing" assessment of banks' credit risk as of December 31, 2023, further substantiates this positive development.

Notwithstanding these achievements, issues and deficiencies in credit monitoring and banking development persist in Guyana, however improvements are being made through legislative and policy evaluations and modifications. Despite a reduction in non-performing loans, historical data from 2016 to 2019 indicates that persistent challenges stemming from changes in economic policy were the primary contributors to the significant growth observed during that timeframe.

## Maintaining Liquidity

**Table 2.** Actual Liquidity vs Required Liquidity in Guyana's Banking Sector

| **000's Millions – Liquidity of all Commercial Banks in Guyana** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** |
| Actual Liquidity | 160,320 | 157,939 | 157,939 | 171,937 | 198,552 | 266,948 | 288,356 | 332,629 |
| Required Liquidity | 84,842 | 83,983 | 83,983 | 90,040 | 103,501 | 103,554 | 152,804 | 183,739 |
| Percentage (%) | 30.6 | 29.8 | 29.8 | 30.3 | 31.7 | 36.1 | 32.2 | 31.8 |

***Source:*** *Central Bank of Guyana Reports 2016 to 2023*

Table 2 above showed a longitudinal trend analysis of actual versus required liquidity, incorporated ratio analysis of compliance with safety and interpretative assessment of available buffers relative to credit growth and institutional risk appetite. The findings were also considered alongside prudential regulation, management behavior and financial stability concepts in the context of Guyana's banking system. Required reserve requirement being 15% as stipulated by the Central Bank.

The adequacy of provisions and reserves remains a critical component of a functional banking system in Guyana. Research indicates that as of December 31, 2023, Guyana's banking sector maintained a solid position with sufficient provisioning and reserves. The lending environment has shifted significantly, resulting in notable growth in private sector credit. Additionally, the financial sector remained highly liquid with average liquid assets exceeding the statutory requirement by 81% or G$148.8 billion as of December 31, 2023. The average liquid assets held by Licensed Deposit-taking Financial Institutions (LDFIs) at the end of December 2023 totaled G$332.6 billion, representing a 16.4 percent or G$44.2 billion increase over December 2022.

A survey of six banks and one mortgage institution revealed that the majority of institutions currently employ a conservative lending approach. This caution is attributed to possible limited familiarity with emerging businesses and insufficient research data on these new industries. For example, factor financing and wealth management products represents a novel funding structure for local banks and industries supporting the oil and gas sector are also relatively new to Guyana's banking environment. The extractive / mining, accommodation / hotels, entertainment, agriculture and sea transport / maritime industries are expanding and banks perceive these sectors as high risk, resulting in restricted or overcautious lending policies to these industries. Consequently, local banks require time to adapt to these changes and are not adapting at the speed required to support economic growth.

Guyana has experienced exceptional economic growth over the past four years (2022–2024), primarily driven by the rapid expansion of its offshore oil and gas sector. During this period, the country recorded some of the highest GDP growth rates globally, ranging from 63% in 2022 to 49.7% in 2024.[21] Therefore; investments and investors that depends heavily on the Oil and Gas Sector need to take these external global shift of practices into considerations; likewise lending institutions".

Technological and data limitations continue to impede the banking industry as many Guyanese banks still rely on manual processes. These practices reduce efficiency and elevate the risk of errors and fraud, despite the recognized importance of digital credit monitoring systems. The Credit Reporting Act of 2010 and its 2016 amendment sought to enhance information sharing and promote more

reliable lending by mandating credit report retrieval and data sharing. Nevertheless, the study highlights the need for all credit suppliers to subscribe to the Credit Bureau and maintain current information.

Economic and political factors significantly influence credit allocation and monitoring. Government intervention in lending policies, as seen in some developing countries, can enhance credit systems and incentivize banks through tax-free income to Banks from specific sectoral lending like home ownership and agriculture. These measures are intended to encourage increased lending to consumers, thereby stimulating economic growth and expanding trade and commerce. Recently, the Central Bank introduced a series of initiatives aimed at modernizing Guyana's financial sector, representing a positive development for the banking industry.

The high liquidity within the banking sector indicates potential for the introduction of new lending products and models that could leverage available funds and possibly lower interest rates for consumers. Survey responses consistently indicated that banks recognize their conservative stance and acknowledge the need to adopt a greater appetite for credit risk in decision-making.

## Discussion

NPLs in the country's banking sector continue to decrease demonstrating a significant improvement in credit quality. It reflects an improvement in the handling of credit risk and is consistent with view on banks' credit risk being "moderate and decreasing" at end-2023. The improvement came as performing loans increased in the wake of swift economic expansion which has stimulated private sector activity and made it easier for borrowers to repay debt.

These positive results notwithstanding, the findings suggest that there remain room for structural, regulatory and institutional credit monitoring and bank development in Guyana. Research and empirical evidence show that breakdowns in early detection in credit risk assessment mechanisms were responsible for high levels of NPLs, especially during the 2016–2019 period where macroeconomic shifts exacerbated previous patterns. These results are consistent with the wider literature on emerging markets that have identified a regulatory and capacity deficit to converge toward international standards in the area of credit risk management.

The findings also reveal that Guyana banks have good provisions and reserves as a key strength. As of December 31st, 2023, banks maintained strong levels of provisioning according to prudential and accounting regulations. The sector was highly liquid. That strong liquidity lets banks handle shocks and supports more lending.

Despite ample liquidity and improved asset quality, the survey indicates that banks remain averse to extending loans. In all six commercial banks and in the mortgage company, cautious credit policies were the rule; this reflected uncertainty about new industries and a shortage of historical data. Financing techniques such as factoring, and industries like oil and gas, hotels, entertainment, mining and maritime services are still novel to local banks. As a result, banks consider those areas high risk and while lending is extended, banks remain cautious. Although this prudence provides stability, it could frustrate financial expansion and the ability of the banking industry to drive economic diversification. This expansion has benefited borrowers' cash flow and loan performance, but it also introduced new credit risks from fast-evolving industries and supply chains. The banks' cautiousness perhaps isn't an irrational response to the shortage of credible history and data in emerging wealth segments.

Technology and data are another big issue. The study notes that many banks continue to use manual and legacy processes, which creates inefficiency, restricts the ability to monitor in real time and increases operational risk. The

Credit Reporting Act (2010) and amendment of 2016 sought to facilitate information sharing and enhanced lending decisions, but the results reveal that not all lenders share data; meanwhile, updates are delayed significantly thus rendering the bureau partially ineffective as information is not always active and up to date. If all credit providers were required to participate and the process of updating data was accelerated, it would greatly enhance monitoring.

The allocation of credit is also influenced by economic and policy factors. The government has provided sector-specific incentives and tax breaks to encourage lending in strategic areas, an effort that promotes trade, fosters investment and creates jobs. The recent measures taken by the Central Bank of Guyana to modernize its financial sector signal a positive regulatory shift and present opportunities for enhancing supervision, data integration and risk-based supervision. The introduction of digital services by the Government also paves the way for data integration and enhancement in provision of digital services.

Lastly, the co-presence of high liquidity and conservative lending behavior points to a latent potential in the banking industry. To sum up, being cash-rich but very risk-averse seems also to signify a dormant power. Survey responses indicate that banks could be too risk-averse and that a more balanced approach might allow broader credit growth without compromising financial stability. For policy makers, this underscores the value of employing counter-cyclical and risk-sensitive regulations which might enable banks to use more liquidity, create new lending products and potentially reduce borrowing costs for consumers and companies.

## Conclusion

The objective of this study is to investigate the efficiency of credit risk monitoring, provision and reserves regulatory policies in Guyana commercial banks against the backdrop of a rapidly changing economy. The results indicate that the credit quality will improve significantly with a substantially reduced level of non-performing loans. This enhancement is supported by healthy growth, strong provisioning and reserve cover as well as very high levels of liquidity that demonstrate the significant improvement in financial resilience and prudential compliance at December 31, 2023.

Notwithstanding those favorable results, the analysis also reveals some existing structural and institutional obstacles limiting both credit monitoring performance and the extent to which banks are able to support economic diversification. The banking system is characterized by a conservative lending policy aimed at preserving stability but this risk aversion -especially towards emerging sectors such as oil and gas services, mining, hotels, entertainment and maritime activity and innovative funding instruments- has constrained credit growth in areas that are essential to long-term development. These restrictions are further exacerbated by a lack of sector-specific data, low level or no historical credit information and continued use of manual and legacy systems in segments within the banking sector.

The study also supports the importance of data quality, technological adoption and regulatory setting for the credit risk outcomes. As well, the impact of regulatory frameworks is rather based on supervisory capabilities, institutional preparedness and the application of contemporary risk management tools despite it can be noted that regulatory systems are generally in line with international standards.

In the end, the study says that Guyana's banking sector is financially sound and well-capitalized with good management but is not optimally placed to fully utilize liquidity for private-sector growth. This balance can be achieved in a slow and steady transition to more data-based credit monitoring, selective technology upgradation and prudent risk-taking within a strong prudential framework. This

way it would be possible for bank to create more lending.

Focused attention must be directed toward reducing the high interest rates on commercial loans within the banking sector, which currently range between 10.0% and 16.25%**.** Such elevated borrowing costs act as a significant deterrent to both domestic and foreign investment. High interest rates increase the cost of capital for businesses, which is often transferred to consumers through higher prices for goods and services. This ultimately undermines competitiveness, constrains economic growth, and reduces consumer welfare.

Accordingly, financial regulators should closely examine this issue and consider the introduction of interest rate parameters or guiding frameworks within the banking system. The implementation of such measures would promote more affordable lending conditions, encourage productive borrowing, and support private sector expansion, while maintaining financial stability within the banking sector.

## Recommendations

Based on the findings and analysis, the following recommendations are proposed to enhance credit monitoring systems, extend the spectrum of lending, review the approach to conservatism risk appetite and overall financial stability in Guyana's banking sector:

**Improve the Quality and Coverage of Credit Data.** The credit bureau and the conditions of membership (pre- and post-membership) shall be mandatory for all credit suppliers with timely implementation. Enhanced data availability and reliability improve credit assessments and information-based asymmetries, while fostering knowledge-based lending.

**Enhanced Digitization amongst Banks and Institutions -**The advancement of digitization among banks and public agencies holds considerable potential to strengthen Guyana's economy by enhancing efficiency, transparency, and financial inclusion. Increased adoption of digital banking solutions and online government services can reduce revenue leakage and lower operational costs for businesses, particularly small and medium-sized enterprises. Expanding digital banking access promotes broader participation in formal financial systems, encourages savings and supports improved credit assessment, thereby facilitating investment and job creation. Collectively, these measures enhance governance, bolster investor confidence and contribute to positioning Guyana as a modern and competitive economy. [26] the above recommendation was also provided by His Excellency President Mohamed Irfaan Ali on October 14, 2025 where he said "his government is actively advancing opportunities that would position Guyana with the technological evolution of the world, especially in the areas of AI, digitization and data infrastructure" [27]**.** The shift needs to be gradual toward automated credit monitoring systems, early warning indicators and technology-based tools for data analytics in order to reduce human intervention during decision-making. More automation would lead to more precise monitoring, operational efficiencies and adoption of best international practices.

**Strengthen Supervision and Risk-Based Monitoring.** Risk-based supervision and SupTech should be further developed by the Bank of Guyana to enable real-time monitoring, stress testing and early regulatory action. Continual management training is a must to stay abreast of the evolving financial risks and technologies. [17] found that the presence of internal and external factors of a risk matters more than its nature. His results suggest that external factors affecting bad loans are more significant than the internal factors.

**Encourage Gradual Adoption of and Adaptation to International Standards.** International standards should be adopted in a gradual and risk-appropriate manner given the

size of Guyana's market and institutional capacity, taking into consideration Basel III and IFRS 9 implementation.

**Promote Moderation in Risk-Taking and Credit Extension.** Regulators may need to use countercyclical and sector-specific prudential tools to promote responsible lending that is part of emerging sectors, including those relating to oil and gas, mining, hotels, accommodations, entertainment and maritime services. This will help to manage surplus liquidity more effectively and without sacrificing financial stability.

**Formulate Industry-Customized Credit Policies for New Economies.** Regulators and banks should cooperate in developing bespoke models for new sectors of the economy where there are no historical data or limited volumes. That would reduce uncertainty, lead to better pricing of risks and unlock financing for non-traditional sectors.

**Enhance Governance and the Redressal Mechanism of Credit Bureau.** The credit rating agency also has been directed to strengthen its data validation process, undertake real time reporting and resolution of complaints by banks/financial institutions within a set time period to enhance confidence among lenders. Enhanced governance that will further reinforce and improve the effectiveness of the bureau is an integral part of credit risk management.

**Utilize Abundant Liquidity to Innovate New Lending Products.** Given the sector's impressive liquidity buffers, banks should be encouraged to innovate in offering inclusive lending products – such as supply chain financing and structured trade finance – to promote private sector growth and bring down the cost of borrowing.

**Strengthen Coordination Between Banks and Policymakers.** Deeper economic integration of banks, regulators and policy makers should be created to drive a credit policy that is not only supportive of national development objectives but mindful of the wiles of prudence. Improving structured dialogue can also provide value in terms of learning about regulatory bottlenecks and evidence-based policy making.

**Continuous Monitoring of Credit Risk Policies and Practices.** Banks should ensure that their credit risk policies, provisioning policies and monitoring mechanisms are reviewed periodically to align with the prevailing economic conditions, market dynamics as well as regulatory expectations.

**Reduce Interest Rate on Lending to Encourage Borrowing**. Guyana's banking sector will need to focus attention on bringing down the high interest rates on commercial loans, ranging between 10.0% and 16.25 %. The rates comprise a significant deterrent to private-sector investment, more so for micro, small and medium-sized enterprises (MSMEs) that are key to fostering employment generation and diversification in the economy of Guyana which is small, vulnerable and rapidly transforming. High interest rates raise the cost of borrowing for businesses, and those higher expenses are often passed along to consumers in the form of higher prices for goods and services. This adds to cost-push inflationary pressures and reduces the international competitiveness of domestically produced goods (including services) not only in the domestic economy, but also within the wider Caribbean.[24] as monetary tightening restricts bank lending it amplifies transmission by elevating borrowing costs. Amid Guyana's rapidly growing economy—fueled in part by oil and gas revenues—such price pressures threaten to exacerbate disparities between more capital-intensive sectors and the wider non-oil economy.

In this context, financial authorities, specifically the Bank of Guyana (BOG), should contemplate implementing guidance or prudential interest rate parameters to influence lending practices among commercial banks. Such steps may be represented by improved competition policies, enhanced credit risk-

sharing systems or targeted lending standards for productive industries. The objective is to enhance the accessibility of low priced loans while preserving systemic stability and depositor trust. A more favorable interest-rate environment would stimulate entrepreneurial activity. Studies have shown [25] that banks' at the municipality level increases the odds of local SMEs following a conservative financing policy.

## Conflict of Interest Statement

The author(s) declare no competing interests.

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## Data Availability

The data supporting the findings of this study (including survey responses and analyzed Central Bank reports) are available from the corresponding author upon reasonable request.

## Authors Contributions

The author's contribution includes conceptualization, methodology, formal analysis, investigation and data curation. It also includes writing the original draft and preparation. The review, editing supervision and validation were completed by my student guide professor Sreekala S.P.

Both authors have read and agreed to the published version of the manuscript.

## Ethical Approval

Ethical approval was not required for this study as it involved voluntary participation via questionnaires and interviews and did not involve clinical trials or sensitive human subjects and issues.

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