



Frequently Asked Questions (FAQS) on Bank of Ghana's 2022 Published Annual Report and Financial Statements

The Bank of Ghana reported a Loss of GHC 60.8 billion. What is driving this huge loss:

The main reason for this huge loss is the impairment of the holding of marketable Government stocks and non-marketable instruments of Government all being held in the books of the Bank of Ghana. This stock of Government instruments has been built over the years. In addition, the Bank of Ghana's (BoG's) exposure to COCOBOD, which has been built over the years, was also impaired. As we all know, the Government of Ghana embarked on both domestic and external debt restructuring. The holdings of Government instruments and COCOBOD exposures were all part of the perimeter of the debt exchange. Whereas all other stakeholders that participated in the Domestic Debt Exchange (DDEP) did not have principal haircuts, but rather had new instruments with new tenors and coupon structure, the BoG, which served as the loss absorber to the entire debt exchange program, a key requirement that allowed the Government of Ghana to meet the threshold for the approval of the IMF program. As a result, the BoG had to take on a 50 percent principal haircut on the total principal (which stood at GHC 64.5 billion at the time of the exchange). Consequently, BoG had new instruments with extended tenor and significantly reduced coupon. By applying the full requirements of IFRS 9, this means that from the principal alone, a 50 percent haircut on the non-marketable amounted to a loss of GHC32.3 billion. The impairment from exposure to COCOBOD also amounted to GHC 4.7 billion. These three DDEP items (ie marketable, non-marketable and COCOBOD) accounted for GHC53.1 billion out of the total loss of GHC 60.8 billion for 2022. In addition to these three items, price and exchange rate valuation effects accounted for GHC 5.2 billion of the total loss, whereas interest expense on cost of monetary policy operation accounted for GH3.3 billion.

In the Financial Statements, we see a loss of GHC 60.8 billion and a negative equity position of GHC 55.1 billion. What is the difference between these two numbers. Normally when profits or losses of institutions are declared, they are posted to a General Reserve Fund Account. The equity (also known as shareholders funds) is defined to include the minimum stated

capital and General Reserves. In this instance, the GHC 60.8 billion loss was posted to the general reserve account which had some positive balances. The loss, together with the positive balances in the General Reserve Account resulted in an overall negative equity of GHC 55.1 billion.

The stated capital of the Bank of Ghana is reported at GHC 10 million. Is this adequate for an institution like the Bank of Ghana with such a huge responsibility. The Bank of Ghana, as we all know, is not a typical profit-making institution and the extent of its capitalization doesn't necessarily determine its policy solvency—meaning its ability to deliver on its mandate of price stability, and in addition, promote financial stability. That said, every institution should be concerned about negative equity and at a point in time, capitalization of central banks is critical, otherwise a sustained period of negative equity could undermine its credibility. Based on the assessment of the external auditors, and the IMF, even though BoG would have a significant negative equity based on the huge impairment from 2022, structures are in place to ensure that the BoG remains policy solvent and well able to deliver on its primary mandate. Structures and actions have been identified (including where needed, recapitalization by Government) over the next 5 years to return the Bank to positive equity. During that period, it is assessed that the Bank will continue to remain policy solvent and discharge its mandate effectively.

Does negative equity affect positive policy solvency?

A central bank policy solvency is the ongoing ability of the central bank to fund and implement operations in line with the policy aims for which it has independent responsibility without recourse to the government. Policy solvency requires sufficient realized revenues to cover costs and to build longer-term capital reserves allowing for independent and appropriate policy decisions. Inability to cover costs and build sufficient buffers over the long term may require capital injection from the government which can undermine its independence and credibility of monetary policy and also affect public confidence in the central bank's operations. Therefore, although the financial position of the central bank has no immediate impact on its ability to pursue the policies it deems appropriate, its equity and its earning capacity should be high enough in the long-run to ensure that it is sufficiently financially independent of the government.

Are there Central Banks operating with negative equity?: Historically, some central banks have operated with negative equity yet fully met their objectives. For example, the Central Banks of Chile, Czech Republic, Israel, Germany and Mexico experienced years of negative capital. Here are a few facts:

- The Czech National Bank reported negative equity from 2002 through 2013 due to valuation write-downs on its sizable foreign currency reserves.
- German Bundesbank, was technically overleveraged in the early 1970s because its losses exceeded its equity.
- Between 2002 and 2021, some 10 out of 32 Emerging Market Economies and Small Open Economies (EME/SOE) central banks had negative equity, only briefly in many cases, but for more than 30 percent of the time for three of them.

But throughout these periods of negative equity positions, price and financial stability were maintained.

What is the difference between insolvency and negative equity. In general, insolvency means inability to pay one's debts. It may take the form of ***Cash flow insolvency or Lack of liquidity***, in which the central bank cannot pay its debt as they fall due. In the case of ***negative equity***, what it basically means is that Central Bank's Liabilities exceeds its Assets.

Are there Central Banks that made losses in 2022 comparable to what Ghana experienced in 2022: In 2022, several central banks run losses and, in some cases, the losses pushed them into negative equity. Let me touch on a few of them and the statistics:

- The Reserve Bank of Australia (RBA) recorded a 2022 book loss of 37 billion Australian dollars, which more than wiped out the central bank's equity.
- The UK Government faces £150 billion bill to cover Bank of England's losses (According to the Financial Times of July 25, 2023).
- The Swiss National Bank (SNB) in early January reported a record preliminary loss of 132 billion francs for 2022.
- In September 2022, the central bank of the Netherlands notified the country's government in a letter that it projects net interest losses amounting to a potential EUR 9 billion for the years 2023 through 2026.
- The US Federal Reserve has no longer been able to remit weekly billion-dollar transfers to the US Treasury since autumn 2022. Instead, a debt obligation to the US Treasury (a liability that the Fed recognizes as a deferred asset) has been growing on the Fed's balance sheet

since then. The Fed eventually will have to pay this liability sometime in the future (when it resumes generating profits).

- For the financial year ended 31 March 2023, the Monetary Authority of Singapore recorded a net loss of \$30.8 billion.

Why Central Banks are reporting losses in 2022: Central banks exist to fulfil their policy mandates, including price and financial stability. The attainment of this mandate involves the central bank taking on financial risks such as credit risk and interest rate risks, through loans to commercial banks/government or currency risk, through the holding of foreign exchange reserves. Some of these risks may materialize leading to losses. Making losses may therefore be perfectly compatible with a central bank's remit of ensuring the smooth functioning of the economy. It contributes to a well-functioning economy by maintaining confidence in the financial system and by stabilizing inflation and economic activity. Therefore, the success of central bank interventions should always be judged on whether they fulfil these mandates. Over the course of 2022, Central Banks around the world aggressively hiked interest rates in an attempt to tackle record-high inflation and re-anchor inflation expectations. These decisive actions have led to losses and in some cases negative equities (i.e. assets < liabilities), raising concerns about the ability of such central banks to fulfil their mandates of price and financial stability.

In Table 1, information on central banks reporting negative equity compiled for 2021 is reported.

Table 1
Central Bank Balance Sheet:
Advanced Economies compared with BOG

	The Riks-Bank	RBA	FED	RBNZ	DNB
Estimated Loss, bn	65	45	720	9	9
Balance Sheet Total, bn	1,564	626	8,890	94	510
GDP, bn	5,457	2,309	22,996	360	856
Estimated Loss/ GDP (in percent)	1	2	3	2	11
Estimated Loss/ Balance Sheet Total (in percent)	4	7	8	6	2

Source: National Central Banks and National Statistical Database

RBA: Reserve Bank of Australia; Riks-Bank, Sweden; ; FED: US Federal Reserve Bank; RBNZ: Reserve Bank of New Zealand; DNB: De Nederlandsche Bank NV,Dutch Netherlands Bank.