



## **Response to Parliament's Minority Group on Bank of Ghana's 2022 Published Annual Report and Financial Statements**

### **Background to large jumps in key expenditure lines in 2022**

Comparing 2022 financial performance with 2021, without taking cognizance of the economic situation in the country is misleading. The year 2022 was the peak of economic and social crisis in Ghana. A culmination of fiscal overruns and debt distress resulted in Ghana losing access to both international and domestic markets. The Rating agencies downgraded Ghana to the junk category with huge macroeconomic imbalances. The cedi depreciated sharply from GHC6 to the dollar at the end of 2021 to almost GHC13.1 to the dollar at the end of November 2022 until it came down to about GHC8.57 to the dollar at the end of December 2022 (resulting in about 30 percent on a year-on-year basis and averaged 31.13%). Similarly, inflation rose from an average of 12.62 percent at the end of December 2021 to 54.14 percent at the end of December 2022. These developments had a significant impact on the operations of the Bank and every other entity in the country. A year-on-year comparison of the financial statement of all entities in Ghana would reveal this sharp jumps.

### **Below are some specific examples and how these developments impacted the Bank's Operations**

**Vehicle maintenance expenses:** - Firstly, the vehicle maintenance expenses line is a generic name for expense covering fuel cost for all BoG operations, insurance of all BoG fleet of vehicles, car parts replacements, and other maintenance cost. Historically, fuel cost has accounted for about 90 percent of this vehicle maintenance expenses expenditure line. For 2022, the fuel cost increased by 123.3 percent compared to 28.9 percent in 2021. This was on the back of petrol and diesel prices increasing from GHC6.6618 per liter of petrol, and GHC6.665 per liter of diesel at the end of 2021 to GHC 16.5811 per litre of petrol and GHC19.6053 per liter of diesel at the end of 2022. This implies increases of 149% (Avg. 87%) and 194% (Avg. 122%).

Given the scale of the Bank's operations, ensuring that the currency is distributed to every corner of the country to ensure seamless medium of exchange for our legal tender, the cedi, such a cost is a major line in our operations and any such changes would lead to a huge jump.

Also, car parts etc are all linked to the dollar and converting these to Ghana cedis at the exchange rate in 2022 would also lead to a huge jump in expenses under vehicle maintenance. We also had significant increases in insurance costs etc for all our fleet of vehicles and bullion vans across the country.

**Communication expenses:** The major item under communication is electronic data transmission charges, including the Reuters and Bloomberg platforms which supports our reserve management and management of petroleum funds as well as currency and exchange rate constituted about 57.4% of the total communications cost. This was followed by the publications and Gazettes (15%), Advertisement (10%), Newspapers local (0.75%) and Newspapers foreign (0.46%).

**The computer expenses:** The jump in computer expenses is mainly the result of the Bank's asset replacement policy which was implemented in 2022 where most of the Desktop computers were replaced with laptops. This is in line with the Bank's Business Continuity Policy following lessons learnt from the covid-19 pandemic, to allow for flexible working arrangements. In addition, all these hardware and software license purchases were in US dollars and the exchange rate depreciation and the inflation both domestically and globally impacted the cedi equivalent on the books of the central bank.

**Foreign and domestic travel expenses:** Like other expenditure lines, the foreign and domestic travel reflect sharply the exchange rate and inflation effects, and not necessarily increased number of travels. The supervision staff travel to visit every single regulated institution and their branches, spread all over the country, at least once a year. This is a huge operation and a core function of the Bank, which constitutes a significant expenditure line of the Bank's operations. In addition, the Bank of Ghana takes continuous professional development seriously to maintain the standards required of a modern central bank.

**External Directors Expenses:** This expenditure line is made up of logistics to run the Board secretariat, Board training, and External Directors fees. They were all heavily affected by the inflation and exchange rate movements during the year.

## **On the issue of waiver or write offs without recourse to Parliament as per section 53(1) (2) of the PFM Act**

Firstly, the BoG's understanding is that the Minister for Finance in his 2023 budget statement, which was approved by Parliament, had the policy of debt restructuring as a key policy initiative. Any further discussion on parliamentary approvals beyond what was approved in the 2023 budget would be handled by the Ministry of Finance.

Secondly, beyond the parliamentary approval, the IFRS accounting standard, which requires the full implementation of the expected credit loss (ECL), meant that the mere announcement by the government of a debt restructuring would trigger ECL applications and impairment charged. On this score, the issue of parliamentary approval or not would not stop an ECL application and impairments on the books of BoG.

And lastly, on this point, the Minister has followed up on his intentions and has submitted a letter to the Bank of Ghana detailing out the terms of the exchange. All conditions precedent (seeking parliamentary approval) to allow for the exchange of the BoG's non-marketable instruments under the Domestic Debt Exchange have been satisfied.

### ***The New Bank of Ghana Headquarters***

A structural integrity assessment conducted by the BoG revealed that the current BoG Head Office building, built by the Nkrumah Government in the early 1960s, is no longer fit for purpose and could not stand any major earth tremors. The outcome of the structural integrity work was that the main building does not satisfy the full complement of excess strength required for a building to be considered safe for usage. This means that in the case of a worst case gravity and wind loading scenario, for example, unusually strong wind, the building may be significantly affected. The building also does not have the required strength to withstand the expected imposed significant earthquake loads that would be expected to occur in the Accra area. Based on the above, and looking at the strategic objective of positioning Ghana as the financial hub of the subregion, with prospects of a potential Headquarters for a future regional Central Bank, The Board and Management of the Bank considered a new Head Office building as the most important priority project to support the operational efficiency of the Bank, and also position the Bank of Ghana in a very good position to be the host of the regional Central Bank as we currently host the West African Monetary Institute (WAMI) of the Sub region.

**9<sup>th</sup> August 2023**