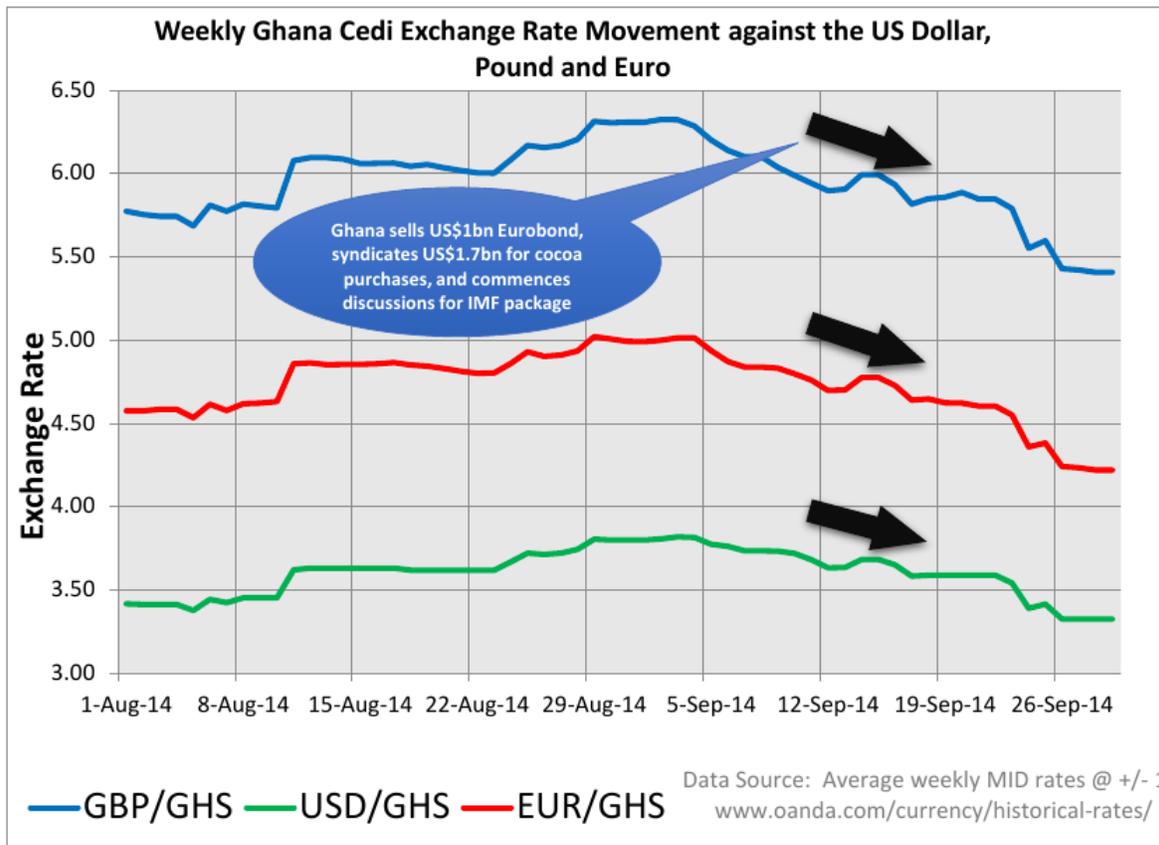


## THE APPRECIATING CEDI: HOW TO STRENGTHEN THE CEDI LONG TERM

The Cedi has been appreciating recently against the US Dollar and other major currencies, as shown in the chart below.



What are the major factors responsible for this relative appreciation of the Cedi?

### 1. Increase in confidence:

- 1.1 The use of the formal foreign exchange market, the banks and the forex bureaux, has increased since the Bank of Ghana (BoG) revised its measures in August 2014.
- 1.2 The prospect of an IMF facility after government announced its intention to go for a facility in August 2014 and then initial discussions were held in Accra from September 16 to 25, 2014.

## 2. Eurobond:

The government issued a US\$1b Eurobond on September 11, 2014 with a coupon rate of 8.125. It was oversubscribed by US\$2b.

## 3. Cocobod syndicated foreign loan:

The Cocobod signed a US\$1.7b syndicated foreign loan on September 11, 2014 for purchasing an estimated 900,000 tons of cocoa in the 2014 to 2015 season. It was oversubscribed by 15%. An additional US\$200m can be drawn on demand in April-May 2015.

These three developments have led to expectation of an increase in the supply of foreign currencies and are indeed increasing the supply of US Dollars in the formal foreign exchange market.

The expectation and reality of increase in supply and the resultant decrease in the Cedi exchange rate, the appreciation, has driven holders of foreign exchange to sell in order to avoid further decrease in the exchange rate, consequently adding to the supply of foreign exchange. This is the converse of the rational behaviour in the market when supply was expected to decrease and was decreasing, as that led to people holding on to foreign exchange in the expectation of further increase in the exchange rate, consequently decreasing the supply of foreign exchange.

The overriding argument in Working Paper 1<sup>1</sup> is that inadequate supply of foreign exchange has been the major cause of the depreciation of the Cedi. Thus, this increase in supply which has resulted in a decrease in depreciation and then in the onset of appreciation confirms that argument.

But this new found strength of the Cedi is not sustainable – cannot be sustained – because:

- 1) The above stated contributing factors which are increasing the supply of foreign exchange cannot be sustained, as the BoG may complete revision of its measures and there will not always be an IMF facility; as there will not always be a Eurobond; and as the Cocobod syndicated foreign loan happens only once a year, in late August to early September.
- 2) Towards the end of every year there is a seasonal increase in the demand for Dollars and other foreign currencies for purchasing goods and services for the end of year festivities.

Therefore, certain steps must be taken urgently to ensure sustainable increase in the supply of foreign exchange that will contribute to long-term strength of the Cedi.

First, in the immediate term the BoG must implement the unaccounted for recommendations of Working Paper 1 which were listed in Current Issue Note 1<sup>2</sup> in order to continue the process of reversing “the distortions the measures have caused in the foreign exchange market, international trade and finance, banking and the economy generally.”<sup>3</sup>

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<sup>1</sup>“The Depreciating Cedi and Bank of Ghana Measures,” 2014. Working Paper 1, GGDP.

<sup>2</sup>“Reaction to Additional Revisions of Foreign Exchange Measures by the Bank of Ghana,” 2014. Current Issue Note 1, GGDP.

<sup>3</sup>Ibid, points 1 to 5, pp. 1-2.

Second, while the Cedi is appreciating the BoG and the government must take the following recommended bold actions in the short term “to increase the supply of foreign exchange.”<sup>4</sup>

### **A. Foreign Exchange Bonds:**

“Float special foreign exchange bonds targeted at resident and non-resident Ghanaians who have foreign exchange. It should woo the diasporan community seriously to invest back home by investing in these bonds, instead of the usual Moneygram and Western Union remittances, which declined last year. Competitive coupon redemption rates ex market inflation and net transfer costs should be offered for these bonds. And, like done for the Eurobond, these bonds must be exclusively utilized for clearly scoped out infrastructure projects which can generate enough returns to pay off the maturing debt obligations.”

### **B. Pre-export Finance:**

“Year in year out there are export orders with exporters that cannot be filled largely because of lack of pre-export finance. A considerable amount of export revenue can be earned if these exports could be made. To address this problem, the BoG and the government should encourage and support banks, the Export Development and Agricultural Investment Fund (EDAIF), the Ghana Export Promotion Authority (GEPA), and Export Finance Company (EFC) to provide pre-export finance, and to do so on time, in line with the export schedule in the export contracts.”

### **C. Forward Foreign Exchange Trading:**

“Encourage the development of a forward foreign exchange market as recommended by the 1996 study. SCB and other banks started trading forward after the study. The issues and problems that subsequently made the banks suspend forward trading should be addressed so that forward trading can recommence, as it could become one of the major ways of minimizing Cedi depreciation. Forward trading allows major sellers (exporters) and buyers (importers) of foreign exchange to plan their sales and purchases forward, consequently reducing spot demand, the major cause of depreciation (and appreciation).”

The BoG must also take the four bold steps recommended to “encourage use of the banking system.”<sup>5</sup>

Third, in the medium to long term, to ensure long-term strength of the Cedi, the government must implement the twin strategies of export-led growth and import-substitution.<sup>6</sup>

The GGDP would like the BoG and the government to take the above stated steps.

Kwamena Essilfie Adjaye  
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<sup>4</sup>Ibid, p. 2.

<sup>5</sup>Ibid, points a, b, c, and e, p. 2.

<sup>6</sup>Op. cit, p. 8.