Ghana Growth and Development Platform
August 11, 2014

REACTION TO ADDITIONAL REVISIONS OF FOREIGN EXCHANGE MEASURES BY THE BANK OF GHANA

We wish to congratulate the Bank of Ghana (BoG) for announcing on August 8, 2014, further revisions of its measures to arrest the depreciation of the Cedi. These were:[1]

1. Removal of the $1,000 limit on cash withdrawals over-the-counter.
2. Repatriation of export proceeds and crediting to FEA based on export contracts and the conversion into Cedis as needed by the exporter.
3. Opening and operation of FCA and FEA as before the first measures were announced on February 4, 2014.
4. All transfers allowed except from FEA to FCA.
5. FCA shall be fed with unrequited transfers from abroad, and FEA shall be fed with export proceeds and other activities in Ghana.
6. The limit for transfers abroad for imports without initial documentation remains at $50,000.
7. The limit on plastic cards of importers remains at $50,000.
8. Allowing the granting of foreign currency loans by banks to their customers.
9. Allowing the use of checks (cheques) on FCA and FEA.

By making these revisions the BoG has shown that it has taken note, among others, of the recommendations made in "The Depreciating Cedi and Bank of Ghana Measures," the first Working Paper of the Ghana Growth and Development Platform (GGDP).

But the GGDP would like the BoG to make the other recommendations it suggested "to reverse the distortions the measures have caused in the foreign exchange market, international trade and finance, banking and the economy generally:" These unaccounted for recommendations are:[2]

1. Remove the limit of $10,000 on transactions in forex bureaux.
2. Remove the limit of $50,000 on the electronic cards of importers, with accounting to the bank that issues the card any and all amounts used.
3. Allow transfers from FEA to FCA if it's the same account holder.
4. Allow offshore foreign exchange deals by resident companies and banks, as long as export proceeds are lodged in Ghanaian banks (see e below).

[1] Bank of Ghana, 2014. Press Release. Revision to Foreign Exchange Notices.
[2] "The Depreciating Cedi and Bank of Ghana Measures," 2014. Working Paper 1, GGDP, p. 7.

5. Allow service providers to decide when and what percentage of foreign currency payments in FEA should be converted into Cedis.

Furthermore, "to restore lost confidence in the banking system and to address the depreciation of the Cedi effectively and slow down the practice of Dollarization the BoG should take the following immediate steps to increase the supply of foreign exchange and encourage use of the banking system:" These unaccounted for recommendations are:[3]

a. Actively encourage and support banks to promote the inflow of remittances for deposit into FEA and FCA. Non-resident Ghanaians who don't as yet have these accounts should be encouraged to open, remit through and operate them.

b. Actively encourage and support banks to encourage resident Ghanaians who have FEA and FCA to continue operating them.

c. Actively encourage official capital inflow.

d. 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.

e. Require that all export foreign exchange earnings must first be deposited into Ghanaian banks. The retention agreements with mining companies must be reviewed accordingly.

f. 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 sale and purchases forward, consequently reducing spot demand, the major cause of depreciation (and appreciation).

"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 Government should encourage and support banks, the Export Development and Agricultural Investment Fund, the Ghana Export Promotion Authority, and Export Finance Company to provide pre-export finance, and to do so on time, in line with the export schedule in the export contracts."[4]

We appeal to the BoG to implement these other recommendations promptly in order further to restore confidence in the foreign exchange market and increase supply into the market so as to decrease the rate of depreciation of the Cedi.

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[3] Op cit, pp 7-8.
[4] Ibid, p. 8.