

**Prepared by the GITFiC**

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**Economic Advice to the new Ghanaian Government lead by His Excellency John D. Mahama**

**Cc:**

 **To the Chairman of the incoming Economic Management Team**

 **To the incoming Finance Minister – Fiscal Head**

 **To the incoming Governor of the Central Bank – Monetary Head**

**Topic: Exchange Rate Stability in Ghana: Strategies and Solutions**

I. **Introduction**

Ghana, a nation pulsating with economic ambition, has long grappled with the volatility of its currency, the Cedi. This dance of fluctuating exchange rates, while a global phenomenon, has taken on a particularly acute form in Ghana, casting a shadow over the nation's economic aspirations. The Cedi's rollercoaster ride, characterized by periods of sharp depreciation, has become a recurring theme, threatening to derail progress towards sustainable growth and development.

The consequences of this instability are far-reaching. Businesses, particularly those reliant on imported inputs, face the constant specter of rising costs, eroding profitability, and hindering investment. Consumers grapple with the rising cost of imported goods, eroding purchasing power and fueling inflation. This volatility also creates uncertainty for investors, both domestic and foreign, making them hesitant to commit capital, ultimately stifling economic growth.

Our advisory paper to the incoming National Democratic Congress administration led by His Excellency John Dramani Mahama will delve into the root causes of the Cedi's instability, exploring the interplay of macroeconomic factors, structural imbalances, and external shocks. It will then present a series of actionable policy recommendations, focusing on both short-term stabilization measures and long-term structural reforms. These recommendations will encompass areas such as monetary policy, fiscal policy, trade policy, and foreign exchange market interventions.

The ultimate goal is to equip the incoming government with a comprehensive toolkit for managing the Cedi's volatility, fostering an environment of confidence and predictability, and ultimately unleashing Ghana's full economic potential.

**Importance of Stability: *Stabilizing the exchange rate is crucial for several reasons:***

**Economic Growth:** A stable currency fosters a conducive environment for investment, which is essential for economic expansion.

**Inflation Control:** Exchange rate stability helps mitigate inflationary pressures, protecting consumers and maintaining purchasing power.

**Attracting Foreign Investment:** Investors seek stable environments; thus, a stable exchange rate can enhance Ghana's attractiveness as an investment destination.

**Objective*: To analyze the key drivers of exchange rate instability in Ghana and propose practical strategies and solutions for achieving greater stability.***

II. **Current Economic Landscape**

Ghana's economic landscape is currently characterized by a complex interplay of factors that contribute to significant challenges, particularly in the realm of exchange rate volatility, which has seen the Ghanaian Cedi experience substantial depreciation against major currencies such as the US Dollar and Euro. This depreciation, which has been reported at approximately 24.3% against the US Dollar as of September 2024, is primarily driven by a combination of external and internal pressures, including global commodity price fluctuations, persistent fiscal deficits, and structural weaknesses within the economy. The reliance on a narrow range of commodity exports, which account for over 80% of total export revenues, leaves Ghana vulnerable to price swings in global markets, particularly for key exports like gold and cocoa.

In the first half of 2024, Ghana's GDP growth surged to 5.9%, a notable increase from 2.8% in the same period of 2023, largely propelled by an 8.1% growth in the industrial sector, which includes mining and manufacturing. However, this growth is juxtaposed against a backdrop of rising inflation, which reached 23% in November 2024, exacerbating the cost of living for many Ghanaians and eroding purchasing power. The inflationary pressures are further compounded by the depreciation of the Cedi, which increases the cost of imported goods and services, thereby contributing to a cycle of rising prices that affects both consumers and businesses.

The trade balance, while showing a surplus of approximately 542.07 million in October 2024, reflects a historical trend of deficits, indicating that while there are periods of positive trade outcomes, the overall reliance on imports for essential goods and services remains a critical issue.

This situation is further complicated by Ghana ′s external debt, which has escalated to around 27.9usd billion, creating significant fiscal management challenges and increasing the burden of debt servicing. The high levels of external debt not only strain government finances but also contribute to a lack of confidence among investors, who may view the economic environment as unstable.

Moreover, the structural weaknesses in Ghana's economy are evident in its heavy reliance on commodity exports, which makes it susceptible to global market fluctuations. For instance, the recent global economic shocks, including the spillover effects from geopolitical tensions such as Russia's war with Ukraine, have disrupted supply chains and affected commodity prices, leading to increased volatility in the Cedi's value. This reliance on a limited range of exports underscores the urgent need for economic diversification to mitigate risks associated with external shock not forgetting the erosion of the marginal economic gains through the adverse of the COVID-19 pandemic.

III. **GIFTiCs Proposed Policy Framework**

This framework adopts a practical, implementable approach to address exchange rate volatility in Ghana, focusing on short-to-medium-term actions while recognizing the need for long-term structural transformation. A key element is enhancing foreign **exchange market management**. To improve transparency and market efficiency, the Bank of Ghana should publish daily foreign exchange market turnover data, including volumes and average exchange rates, on its website and on its social media platforms. We acknowledge significant signs of a shift from its traditional way of doing same in recent times.

By so doing, this reduces information asymmetry and allows market participants to make more informed decisions. Furthermore, the introduction of regular, pre-announced foreign exchange auctions with clear rules and eligibility criteria will provide a transparent mechanism for managing foreign exchange supply, reducing reliance on discretionary interventions. Effective implementation requires clear auction rules and consistent communication with market participants.

Strengthening the interbank foreign exchange market is also crucial. Encouraging greater participation of commercial banks through streamlined regulations and promotion of market-making activities will enhance market depth and liquidity, thereby reducing reliance on the central bank for foreign exchange supply. **This requires close collaboration with commercial banks and appropriate regulatory adjustments.**

Fiscal consolidation and prudent debt management are essential complements to exchange rate stability. Prioritizing revenue mobilization through a comprehensive tax administration reform program, focusing on digitalization, taxpayer education, and enforcement, will increase domestic revenue and reduce reliance on external borrowing. This requires strategic investment in technology and training for tax officials. Strengthening public financial management through stricter budget controls and improved public procurement processes will reduce wasteful spending, improving fiscal discipline and lessening pressure on the exchange rate. **This requires reinforcing internal audit and control mechanisms within government ministries and agencies.**

An active debt management strategy is also necessary, prioritizing concessional borrowing, extending debt maturities, and exploring debt-for-nature swaps where feasible to reduce the debt service burden and vulnerability to exchange rate fluctuations. **This requires collaboration with international development partners and careful analysis of debt sustainability.**

Supporting export diversification and competitiveness is vital for long-term exchange rate stability. Providing targeted support to promising non-traditional export sectors, such as agro-processing, light manufacturing, and tourism, through export promotion programs, access to finance, and skills development initiatives will increase foreign exchange earnings and reduce reliance on primary commodity exports. **This requires effective collaboration with relevant ministries, agencies, and the private sector.**

Improving the business environment by streamlining business registration procedures, reducing bureaucratic hurdles, and improving access to credit for small and medium-sized enterprises (SMEs) will attract investment, promote job creation, and enhance export competitiveness. **This requires inter-ministerial coordination and active engagement with the private sector.**

Finally, enhancing communication and transparency is paramount. The Bank of Ghana should hold regular briefings with market participants, including banks, forex bureaus, and businesses, to provide updates on policy decisions and market developments. This fosters confidence and mitigates speculative pressures, requiring the establishment of clear communication protocols and consistent engagement with relevant stakeholders.

The implementation of GITFiCs advisory framework to the incoming government should be closely monitored and evaluated using key performance indicators such as exchange rate volatility, foreign exchange reserve levels, and non-traditional export growth. Regular reviews should be conducted to assess policy effectiveness and make necessary adjustments.

**Conclusion**

Ghana's economic landscape demands a strategic and multifaceted approach to address the challenges of exchange rate volatility, inflation, and structural weaknesses. The challenge of exchange rate instability in Ghana is complex and requires sustained policy commitment and effective coordination among various government agencies and the private sector.

As this advisory research by the Ghana International Trade and Finance Conference (GITFIC) has argued, a holistic approach that integrates monetary, fiscal, structural, and communication policies is crucial. Our aforementioned proposed framework provides a practical roadmap for achieving this objective. However, the success of these policies hinges on strong **political will**, effective implementation, and continuous monitoring.

GITFIC offers this research as a contribution to the national discourse and remains committed to supporting the new government in its efforts to achieve lasting exchange rate stability and create a more stable and predictable economic environment conducive to sustainable growth and development. **Predictability is a key driver for Direct Foreign Investment.**

The ultimate measure of a man is not where he stands in moments of comfort and convenience, but where he stands at times of challenge and controversy - Martin Luther King Jr.