Current developments in the foreign exchange market

Movements in the foreign exchange rate, in recent years, have been observed to be positively affected by associations with the IMF – the so called "IMF effect" (coined by CEPA). Evidence of this includes the following:

- July 2009 with the launch of the 3-year stabilization program under the Extended Credit Facility (ECF) of the IMF
- July 2012 (an election year) with the end of the 3-year program assessed as having been successfully completed
- August 2014 with the announced decision by the president that the "Home-Grown" consensus should be backed by an IMF "bail-out"
- April 2015 with the finalization of negotiations and approval by the Executive Board of the IMF of the current ECF program

On each of these occasions, a trend reversal has been noticed in the fortunes of the cedi from nominal depreciation to appreciation.

The conclusion of the IMF mission and the clean bill of health given for the first review of the program have reproduced similar effects – a trend reversal – in the exchange rate since early July of this year. The cedi, from the beginning of the year up until end-June 2015 had been on a steady decline; with a year-to-date rate of depreciation of 26.2 percent (MPC Press Release, July 2015). Following the announcement by the IMF that the program was on track, however, the cedi has experienced a trend reversal – appreciating sharply from an end-June value of GH¢ 4.33 to the dollar to a value of GH¢ 3.31 to the dollar as at 14th July, 2015 (BoG Press Release, July 2015).

The announcement by the BoG in late June of this year of its intension to increase the foreign exchange supply to the market from US$14 million a day to US$20 million a day has also contributed positively to the turn-around in the fortunes of the cedi. What was important was that this announcement came during the time when the IMF Mission was in the country completing its first review of the 3-year ECF program. That the announcement was consistent with the programmed decline in the floor on the net international reserves (NIR) from US$1,042 million to US$ 331 million also gave credence to it, as well as an advance indication of the positive assessment of performance by the IMF.

The observed “IMF-effect”, this time around, is also boosted by a policy-based guarantee (PBG) from the World Bank along with a series of development policy financing (DPF) operations in support of the budget.

The PBG, in an amount of US$ 400 million, is in support of the US$ 1 billion Eurobond that is expected to be issued in the latter part of this year – perhaps in September. This PBG is the first of its kind and comes with the granting of the necessary waiver from the executive board of the World Bank to allow Ghana, which has recently been classified as being at high risk of external debt distress, to assess it.

In return for the guarantee, the Eurobond is expected to be reserved exclusively for the re-financing of the existing stock of debt – both domestic and external – and therefore would not add to the stock of debt. The objective is to buy fiscal policy space for Ghana by way of reduced debt service obligations. It is worth noting that it is this debt service obligation that tripped the threshold of debt service-to-revenue ratio of 22 percent and which, in turn, led to the assessment of high risk of external debt distress.

Regarding the DPF operations, the first in a series of three such operations – each in an amount equivalent to US$ 150 million – will be effected starting this year. This would raise the multi-donor budgetary support from development partners (DPs) significantly and could also catalyze further support from other DPs.