
Reasons for Depreciation of the Currency in 2022 so far and Measures being Adopted

- The strength of the US dollar:** The US dollar has become stronger and making other currencies including the Ghana cedi weaker. From the beginning of the year to date, the pound sterling has weakened against the US dollar by 10.8 percent while the Euro has also weakened by 10.1 percent. Countries similar to Ghana (Ghana's peers) are all experiencing sharp depreciation, averaging 11.5 percent from year to date.
- Investor reaction to Credit Rating Downgrade:** The downgrade of Ghana's sovereign credit rating since January 2022 has led to investor reaction and has led to non-resident investors prematurely leaving our bond market. When they decide to leave, the Central Bank has to provide dollars for them to exit the bond market and this exerts enormous pressure on reserves., causing the cedi to depreciate.
- Non-Roll over of Maturing Bonds:** As part of unfavourable investor reaction when bonds held by non-residents mature they are not rolled over. These bonds are held in local currencies and a decision by the non-residents not to roll over results in the Central Bank providing for dollars to help externalize these funds, a situation which puts pressure on the currency. Historically, non-resident rollover of maturing bonds, held by non-residents have been in excess of 80 percent. The figure this year is much lower and has also added another layer of demand pressure from non-residents and hence causing the cedi to depreciate.
- The sharp rise in crude oil prices and impact on the Oil Bill:** International price of crude oil shas risen significantly in the year. What this means is that our crude oil and petroleum product bill has gone up significantly. The import bill for oil and oil products has led to a reduction in trade surplus. The Central Bank is having to provide more dollars for our oil import bill and this has had an adverse impact on the Central Banks reserves and hence on the ability of the Central bank to deal with these shocks.
- Loss of External Financing:** With ratings agency downgrade, Ghana was not able to tap the Eurobond market. Over the past three years Ghana has consistently raised US3 billion from the Eurobond market to help finance the budget. Loss of market access this year implies that no new fresh injection of capital and this has created a huge FX supply problem and constrained the ability of the Central Bank to provide for greater support for the currency. Intervention data shows that BOG's presence in the market this year so far has been lower compared to 2021.

What the Bank of Ghana is doing to Address the situation

- Gold Purchase Program to increase foreign exchange reserves.
- Special Foreign Exchange Auction for the Bulk Distribution Company's (BDCs) to help with the importation of petroleum products.
- Bank of Ghana is entering into a cooperation agreement with the mining companies to provide BOG with the opportunity to buy gold as when it becomes available.
- The Bank of Ghana is supporting the banking sector with foreign currency liquidity to help meet demand for external payments.

- The recently approved USD750,000,000 Afriexim loan facility by Parliament, once disbursed, will boost the foreign exchange position of the country and help restore confidence.
- The Cocoa Loan is expected in the last quarter of the year. This facility will also help provide more foreign currency to help address the cedi depreciation.
- In the short term, we expect that when the IMF programme is finalized, it will also go a long way to help restore confidence in the economy and drive portfolio flows.

These measures will go a long way to increase the foreign exchange reserve position of the Central Bank.

Bank of Ghana
August 11 2022