THE EFFECTS OF MICRO AND MACRO ECONOMIC POLICIES ON THE VALUE OF THE GHANAIAN CEDI

INTRODUCTION

The issue on the depreciation of the cedi in Ghana is getting very interesting as many people are having their own meaning as to the causes of the cedi losing its value against the major international currencies on daily basis. Last month I followed an argument on one of the facebook groups called Common Purpose and was surprised about the line of the arguments many of the contributor, even including the generator of the debate, were making regarding the causes of the cedi value. It must be noted that currency depreciation against others is not the same as currency devaluation by a government and what Ghana is experiencing now is not currency devaluation (as in the case of China) but currency depreciation.

Now it is very interesting that the only explanations we have had so far are coming from politicians and religious leaders on radios, televisions and the pulpit. I said over and over that our attitude in Ghana is one of our major problems and these attitudes are having negative effects on many things in the country. Instead of the journalist getting in touch of the experts and industry players for explanations on technical issues, we rather relied on the political and religious meaning of serious issues in our country. A very recent example is the Merchant Bank and FORTIZ deal where politicians made themselves analysts of mergers and acquisition on radios and TVs explaining the technicalities of the deal. In the same vain today, all manner of individuals are jumping on radios and TV programs to explain the causes of the cedi’s depreciation to the whole world.

First of all let me emphasize that depreciation of your currency is not necessarily a devil as we are all made to think but rather depends on the major economic activities of your country. Remember that these economic activities can be redirect by policies and programs. Brazil for example took advantage of their currency depreciation and increased their exports levels to quickly change their economy and I think these can also be done here in Ghana. When there is a depreciation of your currency, it simply means that imports of goods into your country will become expensive while the exports from your country become very cheap to the other countries. It also mean that there is a huge benefit for your exporters and hence the capability to increase productivity of your local products and generation of employment. Countries like China have continuously devalued their currency against the US dollar in order to make their locally produced goods cheaper in order to capture major markets against the competition from the US and this has been one Chinese policy that have angered the USA for many years now. Last week I head an interview with the Exporters Association and they were very happy of the depreciation of the cedi and even pray that it should continue. So as we are thinking of a prayer for the cedi to be stable, we need to consider the exporters of Ghanaian products who also want the cedi to continue depreciating so they can make good money. I will fully discuss more the benefits of this and why we rather need it more than the stability at the later part of this article.
There are various causes of the depreciation of the currency and whiles some are generally applicable to many countries, we also have country specifics that impacts on the strength of the currency. The general causes are the demand and supply of the currency, inflation and interest rates in the country concerned. Currency is just like any other commodity whose price is influenced by the demand and supply of that commodity. With currency, many factors eventually lead to the demand and the supply of the currency in question. Higher inflation and interest rates only make your good expensive in comparison to the foreign products of whose origins there is a lower inflation. The foreign product therefore become competitively cheaper and if all things being equal (such as quality) their demand will be higher and hence higher demand for the foreign currency which eventually leads to depreciation of the local currency.

From the banks perspectives, apart from the issues discussed above, the major determinants for them to fix the exchange rate at a particular amount is due to the transaction volumes with its implications on the inventory cost of the currency. When a particular currency is in high demand and that currency happens to be a foreign currency like the US dollar, the Euro or the British pound, it means bank must make efforts to make those currencies available to meet their customers’ demands. Many at times the banks have to buy those currencies from other foreign banks and have to store those to meet the demands for the currencies. Today in Ghana, many foreign business people here in Ghana buy the major currencies, especially the dollar, in advance from the banks. When such arrangements happens, the bank tries to put all necessary measures in place at all costs in order to meet their customers’ demands since they don't want to derail the good relationship with their customers. Another cost for the banks, which is transferred to the customer, is the volatility of the currency (the risk of the currency). When your currency is very volatile in the international markets it implied that the risk of holding on to such currency is very high and therefore many would not like to be in possession of that currency. This volatility therefore makes the currency reduces in value as compared with other countries' currencies.

Apart from those causes mentioned above, there are country peculiar issues that affects the cedi, many of which are as a result of policy decisions we have made several years ago which are having negative long time effects on the value of our currency. One of these causes is the decision to open our markets for foreigners, such as Chinese and Nigerians to flood our markets with their cheap and inferior products and also allow such foreigners to engage in petty trading activities in the country. Another serious cause of the current depreciation of the cedi is the Supreme Court case that discouraged many foreign investors from bringing in the major international currencies for the three quarters of the whole 2013, which seriously affected the supply of these currencies as against the demand for them to buy good for the Christmas. The other serious cause which nobody is trying to talk about is the drug trade. Some years ago there was huge boom of the illegal drug trade like cocaine and marijuana in this country and many international organizations labeled Ghana as the cocaine coast. Yes we all ashamed of such dangerous tagging but the fact was that it increased the supply of the major currencies, especially the dollar, into the country. The final point on the causes of the depreciation of the cedi that is
worth noting is the redenomination of the cedi that we undertook between 2006 and 2007. Though many people thought it enable us to just reduce the zeros on our currency and thereby reducing that volume needed to be carried for normal business, some of its negative effects that we were not told is what we are seeing today on the value of the cedi. There is also the speculative effect on the depreciation of the cedi as many people hold on to the major currencies while others want to change their cedi into those currencies especially the dollar to prevent the loss of value of their money. For example, I listened to Malik Kweku Baako the other time on Metro Good Morning discussion when he said emphatically to Randy Abbey that he has kept his dollars in the house and will not keep them at the bank.

These are the major issues that are causing this current serious depreciation of the cedi in Ghana which we must all identify and find ways to mitigate its effects on our economy while finding lasting solution or even take good advantage of the current problem as was done by other countries like Brazil. In the second part of this article, I will explain into details the above mentioned causes and also make some suggestion regarding how to take advantage of the fall in the value of the cedi and other measures needed to be taken to restore confidence in the value of the cedi.

CAUSES OF THE DEPRECIATION OF THE GHANAIAN CEDI

As stated above, the current serious depreciation of the cedi is as a result of some economic policies and decisions we took some years back that are now having negative effects on the value of the cedi. One of such policies was our trade relations with China, Ecowas and other trade agreements we signed with NATO and so on. After several years of trading with the European and American countries, we decided to open our markets to the Asian blocs and this attracted the interest of China in the early twenties and many of them were allowed into the country for trading and other business activities. Also there have been many in-floods of other neighbouring countries like Nigerians. Though these foreigners are band by law from engaging in trading activities below some minimum capital level, many of them are illegally aided by Ghanaians to engage in petty trading activities. It must be noted that many of these Nigerians and Chinese constantly demand huge amount of dollars and other major currencies to send back home and even some to purchase more goods from their home countries.

We are also aware that there are very cheap products with very inferior qualities from these countries, especially China, have taken over our markets. There are various products coming from China and other countries into our country today taking over every local product that we produced in the country. The Ghanaians demands for foreign products is just becoming like a curse and I think if we need some prayers for the strength of the cedi it should be directed to the taste of Ghanaians for foreign products. We have been buying almost everything from other countries like China and these attitudes only goes to create job for those countries that produce those goods to the detriment of the local productions which have the capacity to employ the teeming youth. It is very important to note that this single attitude of Ghanaians has now become
double devil destroying the country. On the one side it denies the Ghanaian the opportunity to work and make some earning for himself or herself and on the other hand putting a lot of pressure on the cedi which is currently causing the serious depreciation of the cedi. It is very important for government to initiate measures that would reduce the in-flood of those cheap products coming into the country or finding some means to discourage the people from demanding those foreign goods that can readily be produced here in Ghana.

Another important factor that we are negating as one of the causes of the current depreciation of the cedi was the 9 months Supreme Court case that saw many economic activities coming to a standstill. It is important to note that while some people want to play politics with the economic impact of the election petition that rock this country in the major part of 2013, it is undeniable fact that there was huge negative economic impact of the SC case during the year. As stated earlier, the demand and supply of a currency is one of the major factors that affect the exchange rate of that currency against the others. The Foreign Direct Investment is one major means by which the major foreign currencies are supplied into the country and therefore if there are huge inflows of foreign currency in term of foreign investment the supply of those currencies would be high.

During the election petition, it was very obvious that many foreign investors were playing the wait-and-see game with their investment. It is a common knowledge that the investment policies of the NPP are different from that of the NDC. Since many foreign investors were not sure who will become the substantive President (even though it was obvious) after the Supreme Court case, they needed to delay their investment plans in order to see which way the ruling goes in order to re-strategize their investment plans. This is just normal for every investor and no serious investor will put his moneys into any venture during those times without serious concerns. Since the petition lasted for the three quarters of the years, which is the period that mostly attract the inflows of foreign investors, the amount of foreign currencies that came into the country during those important periods were not forthcoming. This lead to huge shortage of the major currencies such as the dollar, euro and the pound and as the demand for those currencies kept going up because of our high demand for foreign goods, the value of the cedi need definitely to reduce in value. This effect started manifesting itself in the country from November when this shortage coming as a result of the election petition was met with the high demand for goods during the yuletide.

Many at times some very serious issues are highly politicized in such a way that we all lost focus of the negative repercussion on our economies. In this era of the cedi depreciation over the last six to seven years period some of such serious issues which have rippling effect on the currency has been relegated by both politicians and experts for the fear of political victimization. One such issue is the effects of the illegal drug trade on the value of the cedi. I am sure everybody is aware that Ghana was classified as the hub for illegal drug trade between 2002 and 2009. Though government at the time made some efforts to show commitment in fighting the trade their efforts were thwarted by the involvement of highly officials’ involvement in the trade. One important
issue worth noting is the fact that the illegal drug trade is carried in the foreign currency, especially the US dollar. When such illegal activities are booming in the country, it leads to high supply of the foreign currency into the financial system through various means such as money laundering. This trading activities, though illegal increased the supply side of the dollar in Ghana which eventually lead to the stability of the cedi against the dollar. It is therefore not surprising that the cedi was depreciating at a lower rate during those times when the illegal drug trade was booming in the country. Between 2009 and current, we are all aware of the reduction in the illegal trade which quickly changed the supply of the dollar into the economy whiles the demand for the foreign currency remained according to the taste of Ghanaians for foreign goods, if not increasing. Though I am not in support of the illegal drug trade, one cannot run away from the fact that these dangerous activities led to the increase of the foreign currency in the economy and hence contributing to the stability of the cedi and when the trade is seriously controlled, if not completely eliminated, it leads to the shortage of the dollar in the economy and therefore a possible hike in the exchange rates.

The final reason why the cedi is quickly depreciating against the other major currencies is the speculation among many users of these foreign currencies, either for trading purposes or for hoarding purposes. As the cedi continue to lose its value against the major currencies many people become very agitated towards the future performance of the cedi. In this vain many traders decide to buy more than they actually requested for their trading needs. This eventually leads to high demand for the foreign currencies as against the lower supplies and therefore increases in the exchange rate. As stated earlier in the example by the Senior Ghanaian Journalist on National television who said he keeps his dollars in his room, there are many such individuals and corporate organizations who just want to buy and keep the dollar not because they really need it for any transaction but just because they think the value will go down in the near future hence they will find it difficult to get when the need arises. Today we have several Chinese, Nigerians and Lebanese business people who place orders with their bankers and buy the dollar and other major currencies in about three or two months in advance. Some of these agreements make lots of earnings for the banks and will therefore do everything possible to get the amounts needed by these groups of people. This is not because they really want to do any business immediately but because of their speculative purposes which is purely psychological.

Though there are many theories as to the explanation of the various causes which include ripple effects from other countries like South Africa and so on, it is important that we identify those circumstances that are very peculiar to the country. It is very important to identify all the above causes of the cedi depreciation and find the appropriate and lasting solutions to these problems. Ghanaians are suffering because of the current depreciation of the cedi because we depend so much on foreign products. If you imagine that Ghana imports food products alone worth over $100 million per annum from the USA alone and we take into consideration of that from China it is obvious that we would make significant impacts on the value of the cedi if we could produce just enough here to feed the 25 million Ghanaians. The final part of this article will make some
suggestions for consideration by the government to help make the cedi stronger against the major currencies in the long future.

LASTING SOLUTIONS TO THE CEDI DEPRECIATION THROUGH INCREASE OF EXPORTS

As I promised in my last two episodes on the depreciation of the Ghanaian cedi, this is the final part of the article and I will use this opportunity to highlight on the remedies for the problem. Let me emphasize once again that the depreciation of the Ghanaian cedi is not an evil as we are all made to know and we can take good advantage of the situation and turn this negative phenomenon that has been one of the blockades to our economic development into a positive venture.

In my interview with Captain Smart of Adom FM to clarify my suggestions in the first episode, he sound as if he was in doubt of my proposal about increasing exports to generate more foreign currency. Specifically was his doubt about the product Ghana can concentrate on producing for export and how long it would take for those products to be available to the market. There have been several discussion of the topic on radio, television, news papers and news commentaries the whole of Wednesday 5th February 2014 and prominent among the discussants are Dr. Sydney Casley Hayford, Mr. Gatsi of UCC, Emmanuel Andani of Stambic bank and Kweku Kwarteng, MP for Obuasi. All the above mentioned agree with my suggestion that the long time remedy of strengthening the cedi against the major currencies if to increase our export base. For these reasons, I will use major part of this concluding article to elaborate on the products that Ghana can take advantage of to increase our export base in the future to generate more dollars to meet the market demand. I read an article by Dr. Charles Y.W. Brobbey (Tarzan) who was introducing a topic on purchasing power parity (PPP). I agree with Tarzan totally on all his suggestions except some few points including the fact that I was wondering where were all those good ideas when he was in charge of VRA, one of the biggest government institutions that consume huge amounts of dollars.

Let me first of all state that the current measures being implemented by the BOG to minimize the effect of the cedi depreciation are all in place but as I said before they are just short term measures which cannot be sustained in the long run to keep the cedi strong. It must also be made clear to the reader that Ghana is not the only country going through problems of depreciation of its local currency. Countries like South Africa, Argentina, Nigeria and many others are facing similar problems. I just read somewhere that the Central Bank of Nigeria has propped up the Naira with 3 billion dollars to ease the pressure on the Naira. The BOG has prop up the cedi by pushing some 20 million dollars into the system but this is just too small to make any significant impact. It has given new directive to all commercial banks to regulate the transaction of the foreign currencies in the country. I think some of those measures are long overdue, especially the one has to do with the prohibiting the transaction of business in any currency except the cedi. My
only problem is that if we still continue with the lousy monitoring, these directive would only increase the activities of the black markets for foreign currencies.

As I said, I will like to concentrate on some identifiable products that Ghana can produce in the short and long term to help increase our exporting activities. These are fruits, and fresh fruit juice, tilapia and other fish products, grasscutter, mushroom, salt production, tomatoes and other similar vegetables, rice production Shea butter production and sericulture. There is a potential for Ghana to produce all the above mentioned products which have markets across the globe. Many of these mentioned here are already being produced and exported, but at very low basis, from the country by members of the Ghana Exporters Association. What we need therefore is to encourage more youth, both graduates and non-graduates, to venture into the production of some of the above mentioned products whiles government agencies are made to find the appropriate markets for the products to assist the sales as the volume of production increases. These can be achieved through collaborative efforts by the Ministries of Finance, Trade and Industries, Agriculture and probably Tourism and Culture.

We are all aware that the country has the potential for the production of fruits such as citrus, mangoes, pineapple, watermelon and guava. Yes we are aware that some of these fruits like guava, citrus and mangoes take between two and three years to start producing fruits for harvest. On the other hand watermelon and pineapple has maturity period of four to six months and during bumper harvest, we see many of these products go rotten all over the country. The ministry of Agriculture has many officials sitting in the offices meanwhile they have been well trained agriculturists to be on the field. They have the potential of assisting the teeming youth who have no idea how to go about the production of these citrus on the field and shouldn’t be sitting down in the offices practicing agriculture.

With the assistance of government programs such as GYEECA, LESDEP and the new Youth Enterprise Fund to be established by government, many youth can be made to enter into the production of these fruits. To finalize the process, technical institutions such as the KNUST in collaboration with some private investors can design and build the machines that are used to process these fruits into juice for both the local and international markets. Countries like Saudi Arabia are huge markets for fruit juice as they have limited water resources and is currently processing the sea water for portable water using some complicated processes. Let us take advantage of the recent relationship built by the president with the Saudi prince and capture that market as soon as possible. So as we purchase more gadgets from them, we can also export fruit juice into that country to reduce our trade deficit.

Secondly, we already have the Pawlugu Tomatoes factory and Shea-butter production in the North. According to the management of the factory, they are always producing at below capacity and we cannot do anything to increase productivity of the raw tomatoes to feed the factory? Today, Shea-butter is in high demand in countries like Japan and a small plastic container of the size of joy ointment is sold for about $15. There is high potential of Shea-butter production in the
north and I hope SADA will decide in the immediate future to encourage the planting of more Shea-butter trees rather than the acacia trees they planted across the region where we are told some even died off. I have been wondering the economic value of the acacia tree and cannot comprehend with one yet so we can replace that with the Shea-butter trees, which have high economic values.

There are huge marshy lands across the whole country with high potentials for rice production. Currently Ghana imports over 100 million dollars worth of rice from the USA and more than that amount from the Asian countries like Thailand and China. It is well known that Ghana has the capacity to produce enough rice for the local market and even feed the West African markets with huge demands from countries like Mali and Burkina Faso. What one keeps asking is what have we been doing for all these while and are still importing rice? We are all aware of the huge potentials of the Aveyime project for which some innocent officials were sacrifice and put to jail for no reason. People are just trying to ensure the production of rice in such large scales does not happen because of their selfish interest of huge profits they generate in the importation of rice into the country. Rice and other cereals can be produced at large scale using programs such as LESDEP and GYEDDA and we can continue to use the silo system which was revamped some few years ago for storage. These areas have a huge potential of reducing our import bills while increasing our export capacity in the very short period and we can sustain the productivity for very long years.

The final product I would like to comment on here is the sericulture, which I believe many are unaware of. According to a research conducted by some young students, the production is already here in the country but at very low level. There is also the existence of the Sericulture Association of Ghana who has the potentials to train the youth who want to go into the production. Sericulture is the production of worms that make yarn which is used to make fabrics. This product has been adopted by the UN as having huge commercial value and the market for the yarn is very big across the world. There is evidence that the plant which is used to feed the worms can be produced right here as we have fertile land to that effect. This product has the potential of changing the whole country’s export base with huge capacity to earn us foreign income to reduce our trade deficits. And as I keep on suggesting, this product could also be incorporated into the GYEDDA and LESDEP programs and help the teaming youth have sustainable jobs for their lifetime.

CONCLUSION

As Tarzan put it, the responsibility of a government is to put money in her people’s pocket and I believe that is right. The numerous social interventions introduced by the previous government, in my opinion are just lazy programs that are not sustainable over the period. When people have the capacity and are able to do some work that is bringing him/her money why should such person be asking government to pay his children’s school fees and feed his children with those
pathetic food at school when we all can afford to give nutritious food to our children? Who will want to send his or her children to any medical facility which is lacking the necessary equipment and medication to give proper healthcare when we can all afford to make choices of health facilities where we would be treated with some respect by the nurses? All the above mentioned products and their productivity on large scale basis have the potential of generating employment to our youth and send majority of them back to their various villages to engage in commercial activities rather than remain in Accra looking for non-available jobs. Apart from the huge employment capacity of these programs, there will be significant increases in our export base that will generate lots of foreign earnings which will make too much foreign currency chasing the cedi and this can make the Ghanaian cedi a strong currency for a very long time. I hope we give serious considerations to all the above to make Ghana a better place for our people.