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## About CPS

CPS is a Ghanaian think tank advancing evidence-based solutions across economic growth, fiscal and monetary policy, trade, social protection, and jobs.

## What We Do

At CPS, we transform data into actionable insights that inform and influence public policy. Through rigorous research, multi-stakeholder dialogues, and strategic advocacy, we help bridge the gap between research and real world impact.

We convene policymakers, private sector leaders, civil society actors, and young people to co-create practical solutions that improve livelihoods and strengthen Ghana's economic resilience. Our mission is to ensure that public decisions are grounded in sound evidence and that policies deliver meaningful, measurable outcomes for all Ghanaians.

## Our Focus Areas

CPS's work is anchored in six core policy domains that underpin Ghana's long-term growth and social progress:

- Economic Growth & Development
- Monetary Policy
- Fiscal Policy
- Trade Policy
- Social Protection
- Jobs & Employment

# Ghana's Cedi Holds Steady - But Can the Calm Last?

## 1. Background to the recent appreciation of the cedi

The Ghana Cedi in the last couple of weeks has made some significant gains against major trading international currencies, especially the United States Dollar. This has brought some respite to businesses that heavily depend on foreign currency for their operations.

The current trend of appreciation began in mid-April, when the exchange rate stood at approximately GHS 15.50 to the U.S. dollar. Since then, the cedi

has steadily gained strength, reaching GHS 13.30 by May 7. This upward trajectory has sparked renewed interest and discussion among economists, policymakers, and the general public regarding the underlying drivers of this appreciation and whether it can be sustained in the long term.

Figure 1 below depicts the trend of the cedi performance against the US dollar, British pound and the euro from the beginning of the year to May 7, 2025.

Monthly Exchange Rate Indicators

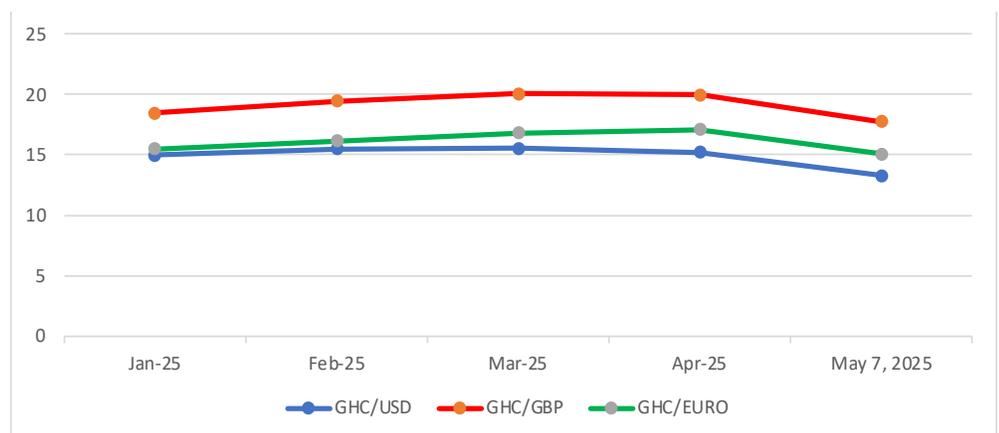


Figure 1: Source: Author-Generated Using Data from the Bank of Ghana

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The development on the forex market has resulted in the economic managers, the central government, and the Bank of Ghana receiving praise from some sections of the trading community. For instance, the Ghana Union of Traders Association (GUTA), in a press statement, has commended the BoG and the government for the stability of the cedi as they tout numerous economic and business benefits.

## **2. Reasons for the cedi's appreciation**

Despite the welcoming development, the conversation has now shifted to the cause of this stability. With such a sharp appreciation of the cedi, analysts, economists, and the business community are keen on unmasking the reasons behind the development. The cause of the appreciation is very important as it speaks to the sustainability of the trend. Let's take a look at the possible underlying factors responsible for the situation.

### **2.1. The weakening of the US dollar**

It is important to note that Ghana is benefiting from the happenings on the global front. The US dollar, which is the leading international trading currency, has been weakening in the past weeks. The poor performance of the US currency is partly due to the uncertainty surrounding the recent reciprocal sweeping tariffs imposed by the President Donald

Trump administration. Some analysts project that the development might plunge the US economy into a potential recession, hence causing the US dollar to lose confidence. Some investors are now hedging their investment in gold instead of the US dollar, therefore contributing to the depreciation of the currency. With the dollar being the major trading currency for Ghana, a depreciation of the currency is automatically a win for the Ghana cedi.

### **2.2. Improvement in the Bank of Ghana's gold reserves**

One significant reasons accounting for this recent strength of the cedi is the impressive accumulation of gold reserves by the Bank of Ghana. As of May 2016, Ghana's gold reserves were approximately 8.7 tonnes. This level had remained largely unchanged since the country's independence in 1957, indicating a prolonged period without significant additions to the nation's gold holdings . However, a notable shift has occurred in recent years. By 31st May 2023, reserves had modestly increased to 8.78 tonnes, but within just two years, the Bank of Ghana significantly accelerated its accumulation strategy. As of 30th April 2025, the country's gold reserves had risen by over 257%, reaching 31.37 tonnes.. As gold reserves are regarded as a symbol of wealth and financial strength, this significant improvement signals that the country can back up its currency with the precious metal, hence boosting investor confidence and stabilising the cedi.

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### **2.3. Strengthened gross international reserves (GIR)**

Significantly accounting for the cedi's strength is the enhanced gross international reserves position of the economy. As of March 2025, the total international reserves amounted to \$9.4 billion, covering 4.2 months of import cover. This is a significant improvement from a year ago, when the reserves stood at \$6.2 billion in March 2024, covering just 2.8 months of imports. These improved international reserves have also provided a substantial buffer to stabilise the currency.

### **2.4. Reduced debt servicing and government spending**

Ghana's external debt obligations particularly the repayment of interest and principal are typically settled in foreign currencies, which often increases demand for the U.S. dollar and other major currencies. However, with the implementation of the Domestic Debt Exchange Program and the ongoing restructuring of external debt, the government's immediate debt servicing commitments have been considerably minimised.

As a result, there is less pressure on the foreign exchange market from government demand, leading to a relative ease in the cedi's value. The reduced need for forex to meet external debt obligations has helped stabilise the currency in the short term.

### **2.5. Constraint on central government expenditure**

One contributing factor to the appreciation of the Ghanaian cedi is the government's deliberate constraint on public spending. Through expenditure capping and tighter fiscal discipline, there has been a noticeable reduction in liquidity within the domestic economy. This limited injection of funds helps reduce inflationary pressures and dampens demand for foreign exchange, both of which support currency stability.

Additionally, the government's fiscal restraint sends a positive signal to markets and investors, reinforcing confidence and curbing speculative behavior that might otherwise drive the cedi's value down. In this way, prudent management of public finances has played a key role in strengthening the local currency.

### **2.6. Bank of Ghana market intervention**

A more debated explanation for the cedi's recent stability is the suspicion of direct intervention by the Bank of Ghana. Some market analysts suggest that the central bank may have injected foreign currency particularly U.S. dollars into the forex market to ease short-term pressures on the cedi. According to this view, such an intervention would temporarily boost supply and stabilise the exchange rate. Databank Research findings indicated that recent agreements by Goldbod with nine mining companies to purchase 20% of

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their monthly estimated gold production of 200 kilogrammes before export has contributed to the appreciation of the cedi.

The Governor of the Bank of Ghana has however stated that the current stability of the cedi is not the result of artificial support, but rather a reflection of improved reserve levels, prudent monetary policy, and ongoing structural reforms. The central bank maintains that its approach has been guided by long-term fundamentals rather than short-term currency management tactics.

### **3. Impact of the cedi appreciation on the economy**

Sentiments on the streets about the recent strength of the cedi have been very positive, indicating that the economy has started reaping the benefits of the development. The following are some benefits that are already accruing in the economy or are expected to be experienced as a result of the development.

#### **3.1. Strong foundation for economic growth**

The cedi's stability plays a critical role in fostering macroeconomic stability, which is essential for sustained economic growth. A stable currency reduces uncertainty and enhances investor confidence, creating a more predictable environment for businesses and economic planning.

This stability particularly benefits key sectors such as manufacturing, agriculture, and services, which often rely on imported inputs. With reduced exchange rate volatility, the cost of these inputs becomes more manageable, enabling firms to expand operations, make long-term investments, and contribute to job creation and productivity. In this way, cedi stability not only reflects economic progress but also actively supports it by laying a solid foundation for broader growth and development.

#### **3.2. Improved business confidence**

Already, the Ghana Union of Traders Association (GUTA) has confessed that the stability in the currency during the recent weeks has significantly boosted business confidence. GUTA says it has brought some positive speculation and predictability to the exchange rate space. With the renewed confidence in the cedi's stability, the business community is hopeful that they can recoup a significant portion of their capital that was lost during the period of excessive volatility of the cedi. In addition, there is the gradual erosion of the notion of hoarding dollars as a store of value. The business community is also hopeful that if this stability is maintained, it will quicken the economic recovery, make businesses competitive, and drive private sector growth.

#### **3.3. Disinflation**

The strengthening of the cedi is also good news

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to the country's fight against inflation. Inflation since January 2025 has been trending downwards. Same is also recorded in the imported inflation component of the overall inflation. The reduction in the imported inflation component and the overall inflation could partly be attributed to the appreciation of the cedi since importers now require fewer cedis to exchange for the same amount of dollars. This makes imported products less expensive and hence dragging down the overall inflation in the economy.

Should this trend be sustained, Ghanaians can be hopeful for a bearable cost of living as prices on the market could either reduce or become stable.

### **3.4. Boost investor confidence**

A stable cedi has some benefits for the country on the international scene. The development will convince international creditors, investors, and development partners that the country's economy is under sound and resilient management. This can boost their confidence in doing business with the country. More so, it will also prompt the international credit ratings agency to improve the credit ratings of the country. This will also increase the credibility of Ghana on the international scene.

### **3.5. Lower public debt stock**

Since a significant portion of the country's public debt stock is foreign currency-denominated, the appreciating cedi is good news. While cedi

depreciation indirectly increases the public debt stock, the opposite is true if the currency appreciates. The strengthening of the cedi means that while the foreign debt remains nominally constant, fewer local currencies will be needed to be exchanged into forex to service the debt. This is different when the local currency depreciates, since more cedis will be needed, indirectly increasing the debt in real terms.

## **4. Risks Involved**

While a stronger and more stable cedi is generally welcomed as a sign of economic progress, it is not without its risks.

### **4.1. Reduced export competitiveness due to cedi appreciation**

One notable downside of an appreciating currency is the potential loss of export competitiveness. A stronger cedi makes Ghanaian goods and services relatively more expensive for foreign buyers, which can hurt demand in international markets.

This dynamic can negatively impact export-driven sectors such as agriculture, manufacturing, and extractives, which are critical to job creation and foreign exchange earnings. Therefore, while currency stability is beneficial, it requires careful management to ensure that it does not undermine Ghana's trade competitiveness-highlighting the need for a balanced and responsive economic policy.

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#### **4.2. Increased demand for import and pressure on local industries**

Another key risk associated with a stable or appreciating cedi is the potential rise in demand for imported goods. As the cedi strengthens, foreign products become relatively cheaper for Ghanaian consumers. While this may seem beneficial in terms of affordability, it can have adverse effects on domestic industries.

Cheaper imports can lead to increased consumer preference for foreign goods over locally produced alternatives. This growing appetite for imports can undermine the competitiveness of local manufacturers and producers, who may struggle to match the prices or perceived quality of imported products. Over time, this could stifle the growth of local industries, reduce job opportunities, and widen the trade deficit.

Thus, while currency stability has its advantages, it must be accompanied by policies that support local production and safeguard domestic industries from being overshadowed by an influx of cheaper imports.

#### **4.3. Reduced value of remittances for recipient households**

An appreciating cedi can also have unintended consequences for households that rely on remittances from abroad. As the cedi strengthens against major foreign currencies like the U.S.

dollar, euro, or British pound, the local currency value of these remittances decreases. Simply put, recipients receive fewer cedis for the same amount of foreign currency sent.

For families that depend heavily on remittances to cover essentials such as food, education, healthcare, and housing, this reduction in income can significantly impact their spending power and overall well-being. In a country where remittances constitute a vital lifeline for many households, this effect could dampen consumption at the microeconomic level and potentially slow down domestic demand.

Therefore, while cedi appreciation may signal economic strength, it also requires sensitivity to the financial realities of remittance-dependent families.

## **5. Sustainability**

Irrespective of the possible downsides enumerated above, the stability of Ghana's cedi is imperative and non-negotiable given its dire impact on the economy. The sustainability of the gains made in recent weeks is very critical to reap their economic benefits. This requires that the government find ways to make these positive gains sustainable in the long term. Already, some of the underlying factors of the appreciation in itself are threats to the sustainability of the appreciation of the currency.

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What if the depreciation of the dollar against other global currencies stops? What happens when government resumes spending? What happens when Ghana starts servicing the next tranche of foreign debt, which is due in July 2025? All other things being equal, if these developments occur without any other interventions then the appreciation of the cedi will be short-lived. This means that a number of comprehensive strategies are required to anchor the cedi beyond the immediate factors. Government could consider the following;

- a. The government may aggressively pursue the domestic gold purchasing programme which commenced in 2021 to continue to build reserves to back up the local currency. This will further boost confidence for the cedi and help tame the exchange rate over the long term.
- b. Government may consider sustaining import-substitution to shift from mere rhetoric to meaningful implementation. A significant cause of the cedi's woes is the high demand for dollars for importation. It should be the agenda to cut down imports by producing the majority of these goods locally.
- c. Governments may reinforce fiscal discipline. This can be achieved by cutting non-essential public expenditures and enhancing domestic revenue mobilisation. By streamlining spending and prioritising efficiency in the use of public funds, the government can reduce

budget deficits and ease pressure on the foreign exchange market.

- d. Tight monetary financing measures may be adopted. When monetary financing is kept in check, it helps control inflationary pressures and prevents excessive liquidity from weakening the local currency.