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POSITION PAPER

Forex Management and Cedi Stability

1st July 2025

The UK-Ghana Chamber of Commerce (UKGCC) Financial Services Committee notes with deep concern the persistent volatility of the Ghanaian Cedi and the increasing use of demand-side regulatory directives by the Bank of Ghana (BoG).

While acknowledging the necessity of tighter financial discipline, the Committee asserts that the current approach, characterised by regulatory inconsistency and a focus on demand suppression, has failed to deliver sustained stability and severely hampers the operating environment for both local and international businesses.

This position paper outlines the private sector's immediate operational challenges and calls for a fundamental shift in policy focus. The primary recommendation is the urgent adoption of a measurable, multi-year structural reform plan dedicated to increasing the supply side of foreign exchange (FX) and fostering a regulatory partnership between the Central Bank and the business community.

I. Context and the Impact of Regulatory Volatility

The current foreign exchange management regime is governed by the **Foreign Exchange Act, 2006 (Act 723)**. While the statute provides the legal framework, recent supplementary directives from the BoG have created an environment of regulatory uncertainty.

Operational Challenges for Member Businesses:

Contractual Instability: Unpredictable currency fluctuation directly compromises the viability of long-term commercial contracts and cross-border agreements, leading to delays, cancellations, and negative impacts on employment and income levels.

Compliance Friction: Contradictory directives, often introduced with short notice, make it difficult for universal banks and corporate entities to maintain full compliance, particularly regarding essential foreign service payments (e.g., school fees, rent, airline tickets). This "regulatory whiplash" creates an unfriendly business environment.

Investment Deterrence: When the real rate of return for investors, once accounting for inflation and depreciation, remains negative, capital flight is incentivised, and Foreign Direct Investment (FDI) is deterred.

II. The Imperative for Structural, Supply-Side Reform

The reliance on direct market intervention and demand-side controls has proven ineffective as a long-term solution. It was noted that interventions amounting to $4.2 billion over a six-month period did not prevent Cedi depreciation. For genuine, sustained stability, policy must address the underlying structural flaws that generate the chronic need for FX. This perspective is consistently supported by international bodies focused on long-term growth.

A. Implementing Long-Term Fiscal and Structural Discipline

The World Bank emphasizes that sustained macro-financial stability requires addressing deeper structural vulnerabilities rather than merely relying on short-term fixes.

Fiscal Synchronisation: There is a critical misalignment between the government's budgetary framework and the BoG's FX policy, resulting in "leakages" that undermine currency stability. The focus must shift to hardening the government's own budget constraint through enhanced domestic revenue mobilisation and stricter expenditure controls.

Structural Diversification: The BoG's gold purchase programme is a relevant "natural experiment", but true stability requires addressing the energy and cocoa sector liabilities that perpetually drain fiscal resources and put pressure on the FX market. World Bank policy notes consistently call for reforms in these sectors to mitigate fiscal risk and bolster economic stability.

Measurable Plan: The government must publish a clear, measurable, four-year plan that details the structural reforms necessary to stabilise the economy, allowing the business community to objectively measure outcomes and plan capital allocation.

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V. Key Recommendations

The UKGCC calls upon the government and the Bank of Ghana to immediately adopt the following policy recommendations:

Clarity and Consistency: Restore confidence by providing greater clarity and consistency in Central Bank directives, engaging the banking sector as collaborative partners rather than passive recipients, and reducing short-notice regulatory volatility.

Long-Term Commitment: Introduce and commit to a clear, measurable, four-year policy roadmap that prioritises the restoration of macro-financial stability and structural transformation, ensuring policy actions are synchronised across fiscal and monetary authorities.

Supply Side Focus: Structural policies must prioritise sustaining the flow of FX into the economy (supply) by boosting export competitiveness and tackling structural liabilities, rather than solely focusing on limiting legitimate demand.

Repatriation & Remittance Fairness: Immediately address the disparity between official and grey market exchange rates to incentivise formal remittance flows and ensure flexibility in Forex rules governing the repatriation of profits and payment for essential business services.

The UKGCC will continue to maintain an open dialogue with the government, offering its perspective and expertise as the framework for these necessary reforms evolves.

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