

## Politics and the Ghana Cedi

*Politics in Ghana generates very strong emotions among Ghanaians and has become a very sensitive issue considering that 2016 is an election year. A little caveat to prevent anyone reading the article from thinking it is a political piece on party politics and the depreciation of the cedi. The writer has tried to remove statements that will mislead readers into inferring politics from the article. The observations in the article came as a chanced revelation during routine work on assessing historical performance of the cedi.*

The Ghana Cedi depreciation has been a constant worry for most businesses over the years and still continue to pose a significant risk to businesses especially when budgeting for expenditure. Politics and elections in Ghana generate a lot of mixed emotions depending on which side of the political divide one is. The story gets interesting when you try to superimpose the depreciation of the Ghana Cedi over the past years on our election calendar for the same period.

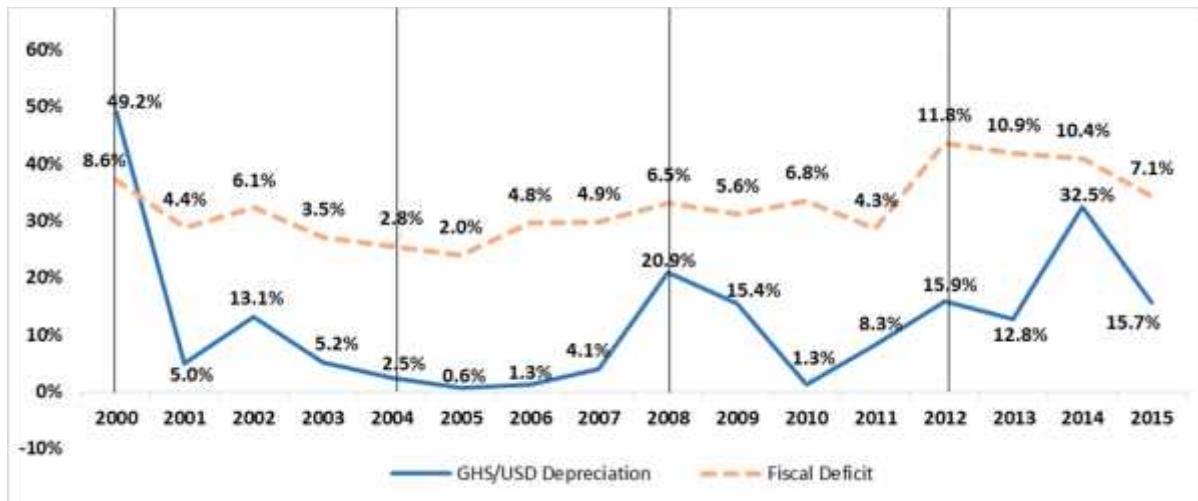


Figure 1: Fiscal deficits and Ghana Cedi depreciation against the US Dollar\_2000 to 2015

A cursory look at the trend, as depicted in the graph above, reveals a pattern to the local currency's depreciation within the electoral cycle.

- The loss of value in the Ghana Cedi slows down significantly in the year following an election, as occurred in 2001, 2005, 2009 and 2013.
- The year after that however records a higher depreciation (2002, 2006, 2014), although this was not the case in 2010. The aberration in 2010 could be attributed to the onset of commercial oil production in Ghana and the associated effect of dollar revenues and heavy capital inflows on the exchange rate.
- In the third year within the cycle, the chart shows two outcomes. Although the Ghana Cedi depreciated faster in 2007 and 2011, there was a slower decline in 2003 and 2015.
- There was a sharp depreciation of the Ghana Cedi in 2000, which was an election year. The loss in the value of the currency was the result of a combination of a high fiscal deficit and concerns about instability as the Rawlings era came to an end.

### **Election year**

The political cycle is in full throttle at this point, and Government usually has an incentive to complete projects and enforce previously ignored policies. Heightened pressure on the public purse leads to higher deficits. Uncertainty about the outcome of the election leads to some withdrawal of funds by foreign investors, leading to further pressure on the Ghana Cedi. This was more pronounced in the last two elections, where both major political parties in office overstretched the nation's finances in spending sprees.

### **One year after election**

In 2001, following the turbulence of the 2000 election year, the Cedi lost a much smaller value of 5% against the US dollar. Renewed confidence in the economy, following the victory of John Kufour and the NPP (considered to be business-friendly), brought in stability and supported several macroeconomic variables. In 2009 and in 2013, a renewed mandate or an election victory led Government to rein in spending and fix economic problems as politicians and officials pursue policies and directives with speed. In 2005, the Government's ability to check its expenditure was instrumental in retaining confidence and investor interest in the economy.

### **Two years after election**

After the ministerial and leadership appointments, preparations and groundwork of the previous year, Government begins to run in full gear, the result of which is usually the launch of several projects and policies simultaneously. This creates pressure on the fiscal space and usually leads to deficits. At this point, expectations from the electorate are waning and government officials have a free-hand to pursue their goals with less attention to economic and financial variables and little interference from both the opposition and the general public. Although this might be appropriate in the short-term, the result is fewer checks and accountability that might affect economic fundamentals in the long run.

### **Pre-election year**

The divergence in 2011 is explained by the return to normality after the unusual case of 2010, whereas that of 2007 resulted from the rapid depreciation in the last trimester of the year as the US financial crisis took hold of the global economy. However, governments begin to consider the general economy in the year preceding the year, in the hope of scoring political points. As a result, they pull the brakes on expenditure a little and make business and general living easier by cutting taxes and tariffs, in order to reconnect with the electorate. The generated investments and spending provide the necessary support for economic growth and the local currency regains some strength.

### **Conclusion**



Given the trend in fiscal deficits and the fall in value of the Ghana Cedi to the US Dollar, the discussion shows a noticeable relationship between the election year cycle and depreciation in the local currency. However, despite the identified trends, a rapid depreciation in the Cedi during the 2016 election year is not a constant. It will be dependent on the Government's resolve and ability to keep expenditure in check, the energy situation and the global prices of cocoa, gold and oil in particular. There is no doubt that the Ghana Cedi has a strong reaction to the political and economic direction of the period.

*The writers are Analysts with **FirstBanC Financial Services**, an integrated investment banking and financial advisory firm licensed by the Securities and Exchange Commission (SEC).*