

RE-DENOMINATION OF THE CEDI

The current note regime places significant deadweight burden on the economy. This comes in several forms such as the high transaction costs at the cashiers, general inconvenience and high risks involved in carrying loads of currency for transaction purposes, increasing difficulties in maintaining bookkeeping and statistical records and ensuring compatibility with data processing software, and the strain on the payments system, particularly the ATMs.

As the economy grows increasingly complex in financial transactions, there will be difficulties in price tagging at shops and supermarkets and inability to use vendor machines and car parking meters that are part of a modern growing economy.

Experience in other emerging market economies in similar situations suggests that re-denomination of the currency by dropping zeros in the relative prices of domestic price relation leads to significant efficiency gains, when undertaken in the context of strong economic fundamentals and macroeconomic stability, which is the situation characterizing the economy today.

There is a high fixed cost of re-denomination as it takes resources, organization and time to implement, including re-calibration of certain equipments, eg. ATMs and accounting software. Historical analyses suggest that re-denominations have been very successful in an environment of macroeconomic stability, that is, declining inflation, stable exchange rate, fiscal prudence, and well anchored expectations of policy credibility. And, the benefits are incalculable. However, implementation under high inflation and unstable macroeconomic environment had resulted in repetitive removal of the zeros, and the benefits have been illusive, and credibility lost.

Over the past five years, macroeconomic stability has taken root; inflation is falling; interest rates falling; the currency is stable; the cedi's role as a store of value has been restored, under a policy of commitment to fiscal and monetary prudence. This creates the appropriate conditions for the re-denomination exercise in Ghana.

Under the current note regime and pricing structure, the unit price of the smallest commonly purchased item in the consumer basket is at least ₵500; with the modal purchases at about ₵5000. A purchase valued at ₵500,000 requires a bundle of notes and for large volume transactions, values run into trillions, over-tasking accounting systems.

Re-denomination

The new note regime will set the new currency numeraire at $₵10,000 = GH₵1 = 100Gp$. The new set of currency will have the following characteristics:

- Name of new currency would be Ghana Cedi (GH₵).
- The sub unit of GHC is the Ghana Pesewa (Gp).
- The series of notes and coins are as follows:
 - Notes: GH₵1, GH₵5, GH₵10, GH₵20 and GH₵50.
 - Coins: 1Gp, 5Gp, 10Gp, 20Gp, 50Gp and GH₵1.

Circulation

- The old cedi notes and coins would be withdrawn from circulation starting from **July 2007** over a period of at least six (6) months. This starting date has been chosen to allow for familiarization before the cocoa season begins in October 2007.
- Both the old and new cedi banknotes and coins would be in physical circulation for a period of 6 months.
- However, after the 6 month transition period, old notes and coins would only be exchanged at the Bank of Ghana and any

commercial or rural bank but will not be legal tender and therefore would not be used for trade and other transactions.

- The old and new notes and coins will have the same external value. This means that if the day's exchange rate between the cedi and the dollar is \$1=¢9,200, then the exchange rate of the Ghana Cedi (GH¢) is:

$$\begin{aligned} \text{¢}9200 &= \text{GH¢}0.9200 = 92\text{p} = \$1 \\ &\text{or} \\ \text{GH¢}1 &= \text{¢}10,000 = \$1.087. \end{aligned}$$

For example, ¢1,000,000 at the exchange rate of \$1=¢9200 will yield \$108.7. With the re-denomination, ¢1,000,000=GH¢100, which will also yield \$108.7.

Similarly,

$$\text{¢}17,400 = \text{GH¢}1.7400 = \text{£}1$$

and

$$\text{¢}11,804 = \text{GH¢}1.1804 = \text{€}1$$

However, the external value of the cedi will continue to be determined freely on the market.

Benefits

- Reduction in cost and overall risks of carrying large volumes of notes.
- Efficiency in payments systems, in particular, ATMs.
- Simplification of accounting records and the ease of expressing monetary values.
- Re-introduction of the culture of using coins in Ghana.
- Conversion of ¢5000 and below into coins would increase the efficiency of banknote processing systems and improve the overall quality of banknotes in circulation.
- Significant reduction in transactions volume.
- Facilitating the introduction of the use of vendor machines and car parking meters.

- Promoting tourists expenditures.
- Significant gains in cost of banknote production.

What would be required

- A coherent programme of the logistics and implementation of activities associated with the distribution of new and withdrawal of old currency notes and coins.
- Cooperation of the banking industry and other key players in the market.
- A comprehensive public education programme.
- Legislation to validate the Ghana Cedi (GHC) and Ghana Pesewa (p) as a legal tender, and updating all pertinent legislation.

Timing

Implementation would require the cooperation of major stakeholders and public institutions and the general public. The new currency notes and coins are planned for introduction by July 2007. The public will be kept fully informed about this exercise.