

ABSTRACT

CURRENCY DEPRECIATION AND ITS IMPACT ON MACRO ECONOMIC VARIABLES IN THE SUB-SAHARAN AFRICA CONTEXT: EVIDENCE FROM THE REPUBLIC OF GHANA

Sampson Banflo Narteh-yoe

This study examined the effect of currency depreciation on macroeconomic variables in Ghana with Sub-Saharan countries providing a broader background. The study was conceived on the grounds that although all the countries in the sub-Saharan region other than the countries in the CFA (Communauté Financière Africaine—"African Financial Community") Franc zone have been facing the problem of currency depreciation in their economic development efforts, empirical studies documenting the implications of such depreciation on macroeconomic performance is limited. This study seeks to contribute in explaining the dynamics of the implications of depreciation of national currencies of aforesaid countries on macroeconomic performance. The study followed quantitative analytical procedure through higher order statistical analyses. The data span of 36 years covers period from 1984 to 2019 with monthly data frequency. Autoregressive distributed lag (ARDL) approach was employed for the analyses to estimate the short and long run relationship of currency depreciation and selected macroeconomic variables (inflation, balance of payment (BOP), foreign direct investment (FDI), balance of trade (BOT) and real gross domestic product growth rate (GDPG)). It has been assumed that due to the syndrome of small economy exporting mainly raw materials the impact of currency depreciation in Ghana on key macroeconomic variables is different (at least in some cases) than in more diversified economies. This hypothesis was positively verified by the research with regard to BOT, FDI, and to some extent also in relation to GDP growth and BOP. Depreciation of Cedi has not showed statistically significant impact on BOT and FDI.

Keywords: Currency depreciation, Cedi, Ghana, macroeconomic situation