

Does Ghana Really Need 15 Months of Foreign Exchange Reserves?

Ghana's Ghana Accelerated National Reserve Accumulation Policy (GANRAP), 2026–2028 marks a decisive shift in how the country thinks about external buffers. Rather than relying on Eurobonds, swaps, and other costly short-term instruments, the government proposes to build foreign exchange reserves by purchasing domestically produced gold and retaining the export proceeds. This strategic shift deserves credit. Ghana's recent crisis showed clearly that borrowed reserves are fragile and ultimately self-defeating. Anchoring reserve accumulation in domestic gold production is, in principle, a more sovereign and sustainable approach.

But sustainability depends not only on how reserves are accumulated, but on how much is accumulated. On that question, the policy's headline goal — 15 months of import cover by 2028 — is difficult to justify economically and unnecessary given Ghana's current position.

Ghana's Current Reserve Position Is Already Strong

By end-2025, Ghana's Gross International Reserves stood at about US\$13.8 billion, equivalent to 5.7 months of import cover. This is not a weak position. It is comfortably above traditional reserve-adequacy benchmarks and places Ghana well outside the danger zone that preceded the 2022–23 crisis. One widely cited benchmark is the Greenspan–Guidotti rule, associated with Alan Greenspan and Pablo Guidotti, which recommends that countries hold reserves sufficient to cover all short-term external debt falling due within one year. For most emerging and commodity-exporting economies, meeting this rule typically corresponds to roughly 3–5 months of import cover, depending on the structure of external liabilities. A second influential framework, developed by IMF economists Olivier Jeanne and Romain Rancière, treats reserves as precautionary insurance against sudden stops and shows that optimal reserve levels rise with exposure to external risk but eventually plateau as opportunity costs increase. Calibrations in this literature generally imply optimal reserve holdings in the range of 5–8 months of import cover for economies facing Ghana-like shock profiles. Measured against these conventional standards, a reserve buffer in the range of 5 to 8 months of import cover — particularly for a commodity-exporting economy with gold, cocoa, and oil revenues and a flexible exchange rate — is widely regarded as more than adequate to insure against sudden stops, smooth exchange-rate volatility, and sustain market confidence.

The key point is this: Ghana is no longer in a reserve-scarce regime. The policy challenge is not to escape vulnerability at all costs, but to avoid overshooting into an excessively costly buffer.

The Opportunity Cost of Holding Excessive Reserves

Putting numbers on the policy clarifies the scale of the issue.

With monthly imports of roughly US\$2.4 billion, a reserve target of 15 months implies about US\$36 billion in reserves. That is an increase of over US\$22 billion from current levels — roughly 20% of GDP. This would place Ghana's reserves:

- almost at par with its external public debt stock,
- and among the highest reserve-to-GDP ratios in the emerging-market universe.

Such a position is not inherently virtuous. It is costly.

Even when reserves are accumulated through gold purchases rather than borrowing, they are not free. Every dollar locked into reserves is a dollar not used to reduce expensive liabilities, finance infrastructure, stabilise the energy sector, or support productivity-enhancing investment.

A simple benchmark illustrates the cost. If Ghana's alternative to holding reserves is avoiding external financing at yields of around 8%, then holding an additional US\$22 billion in reserves carries an implicit opportunity cost of nearly US\$1.8 billion per year. That is the price of the marginal reserve months beyond what is already adequate.

At reserve levels of 5–8 months, the insurance benefits dominate. Beyond that range, the opportunity cost rises sharply while the marginal protection against shocks diminishes.

Gold Changes the Logic of Reserves — and Weakens the Case for 15 Months

The government's strategy relies heavily on gold, targeting the purchase of over 3 tonnes per week, largely from the artisanal and small-scale mining (ASM) sector. At current prices, this implies annual gold-linked FX inflows exceeding US\$20–25 billion.

This is precisely why a 15-month reserve stock is unnecessary.

Gold is not just a reserve asset; it is a continuous flow. As long as Ghana maintains:

- steady domestic gold production,
- effective gold purchasing and export retention mechanisms,
- and credible macroeconomic policy,

it already possesses a built-in buffer against external shocks.

In other words, Ghana's resilience comes not only from the stock of reserves, but from the flow of generated foreign exchange. When flows are strong and reliable, the optimal stock of reserves is lower, not higher. Targeting extremely high reserve levels in a gold-rich economy risks confusing insurance with hoarding.

Excessive Reserve Accumulation Can Become Inflationary

There is also a monetary risk that the policy underplays. To accumulate reserves, the Bank of Ghana must purchase gold or foreign exchange — including FX generated from gold exports. Unless these purchases are fully sterilised, they expand domestic liquidity. While this has been manageable at recent levels, scaling the process up significantly would make sterilisation far more difficult and expensive.

Sterilising sustained inflows large enough to push reserves toward 15 months requires:

- continuous issuance of domestic paper,
- or higher interest rates,

History suggests that such discipline is difficult to sustain politically. When sterilisation weakens, excess liquidity spills into the economy, fuelling credit growth and inflation. In that scenario, the reserve build-up meant to stabilise prices can end up re-creating inflationary pressures.

Ironically, then, aiming for too much insurance can undermine macroeconomic stability rather than strengthen it.

Re-examining the Policy's Core Objectives

GANRAP's stated goals are legitimate:

1. safeguard macroeconomic stability,
2. break cycles of downturns,
3. sustain confidence in the currency,
4. reduce exposure to external shocks,
5. and support long-term transformation.

But none of these objectives require 15 months of import cover. A reserve buffer of 5–8 months, backed by:

- higher productivity
- strong gold export flows,
- sound monetary policy
- and credible fiscal discipline,

is more than sufficient to achieve these aims — without imposing unnecessary fiscal and monetary costs.

Long-term transformation will be driven not by the size of Ghana's reserves, but by how effectively government revenues are used to strengthen productivity, energy reliability, and export capacity.

Conclusion

Ghana does not need to choose between vulnerability and excess. The country has already rebuilt its external buffers to a healthy level. With gold providing a steady flow of foreign exchange, maintaining reserves in the 5–8 month range is both economically sound and institutionally sustainable. The danger today is not too few reserves, but too much ambition. Stability comes not from the largest possible buffer, but from the right buffer — one that insures against shocks without crowding-out growth or reigniting inflation.

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