BANK OF GHANA

Economic & Financial Review

September 2005

MONETARY POLICY COMMITTEE PAPERS

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Chapter 1

1 PRICE DEVELOPMENTS

1.1 Headline Inflation

In July 2005 consumer headline inflation dropped by 80 basis points from the level of 15.7 per cent attained at the end of the second quarter. The decline in inflation is the fourth consecutive drop in headline inflation. At 14.9 per cent, the headline inflation is close to its level in February 2005 ie. before the first impact of the 50.0 per cent petroleum price adjustment registered on consumer prices. The decline in inflation in July 2005 was driven by both food and non-food prices. The food price index registered a growth of 0.4 per cent while the non-food index grew by 0.3 per cent. The overall index, thus, grew by 0.3 per cent and this is significantly lower than the growth of 1.1 per cent recorded in July 2004. This comparatively lower growth in consumer prices relative to trends a year ago resulted in downward move of inflation from 15.7 per cent to 14.9 per cent.

For the month of July 2005 the various components of the consumer price index (CPI) registered growth rates ranging between 0.0 - 1.6 per cent (see Table 1). This position may be compared with that of July 2004 when the monthly growth rate ranged between 0.2 1.8 per cent. The lowest recorded monthly change for July 2005 was observed in the transport and communications sector where no price change was recorded. The highest monthly growth of 1.6 per cent was observed in the Recreational,

Table 1: Monthly Growth Pattern: Components of the CPI: Jan-Aug 2005

Year	Combined	Food and Beverages	Alcohol and Tobacco	Clothing and Footwear	Housing and Utilities	Household Goods, Operations and Services	Medical Care and Health Expenses	Transport & Commu-nications	Recreation, Entertainment, Education and Cultural Services
	100.0	51.9	3.6	9.6	9.2	7.3	4.3	6.5	4.9
Jan-05	0.9	1.2	1.0	0.1	0.6	0.7	1.7	1.3	3.0
Feb-05	4.8	2.9	1.8	1.0	12.6	2.1	2.6	13.7	1.1
Mar-05	4.2	4.4	2.2	3.3	3.3	3.3	4.0	10.1	2.4
Apr-05	2.0	3.3	1.0	1.3	0.0	0.3	6.1	1.5	5.8
May-05	1.0	1.6	1.0	0.3	0.1	0.4	2.2	0.2	1.3
Jun-05	0.9	1.5	0.3	0.8	0.4	2.1	2.0	0.7	0.6
Jul-05	0.3	0.4	1.2	1.3	0.3	1.2	0.7	0.0	1.6

Entertainment, Education and Cultural Services of the economy.

Price developments for the subsequent months of August, September and October 2005 (especially food prices) will shed more light on the extent to which further declines in the rate of inflation should be expected. This, to a large extent, will be conditioned on the food supply situation, given that non-food price growth is expected to remain largely low and subdued.

1.2 Core Measures of Inflation

Developments in the various core measures of inflation are as follows:

a. Isolating price changes of energy and utility from the consumer price basket, the month of July 2005 saw inflation decline to 13.1 per cent.

b. INFXEUF, a core measure which strips out volatile price movements of some selected food items from the consumer basket in addition to energy & utility components of the CPI went down marginally in July 2005 to 10.60 per cent from 10.64 per cent in June 2005.

c. INFXEUFT, another level of the core rate of inflation, defined to isolate price changes of energy and utility, food and Transportation from the consumer basket, however, went up marginally to 9.6 per cent from 9.5 per cent in June 2005.

Table 2: Summary on Headline and Core Measures of Inflation

	Dec-02	Dec-03	Mar-04	Jun-04	Jul-04	Sep-04	Dec-04	Mar-05	Jun-05	Jul-05
Headline Inflation:CPI Levels	261.2	322.7	340.5	356.7	360.9	359.0	360.7	397.3	413.2	414.5
Monthly Inflation Rates	1.39	1.2	1.8	1.4	1.2	-0.7	0.8	4.2	0.9	0.3
Inflation Rate	15.2	23.6	10.5	11.9	12.4	12.6	11.8	16.7	15.7	14.9
CORE1: INFXEU:										
Estimated CPI-CORE1	261.0	309.9	328.2	343.5	347.3	345.2	347.2	376.6	391.7	392.8
Estimated Monthly Change	1.39	1.17	1.80	1.40	1.10	-0.70	0.74	4.13	0.92	0.30
Implied yr-on-yr Inf. Rate	15.1	18.7	11.9	13.2	13.6	12.7	12.0	14.8	14.0	13.1
CORE 2:INFXEUF:										
Estimated CPI-CORE2	258.2	305.1	320.6	329.9	333.0	330.6	330.9	352.5	365.0	369.9
Estimated Monthly Change	1.04	1.18	1.60	1.00	0.93	-0.10	0.12	3.45	0.92	1.33
Implied yr-on-yr Inf. Rate	13.7	18.2	10.7	10.7	10.8	9.2	8.4	9.9	10.6	11.1
CORE 3:INFXEUFT:										
Estimated CPI-CORE3	257.9	305.1	319.8	329.1	332.0	333.0	333.0	347.5	360.4	365.2
Estimated Monthly Change	0.91	1.17	1.50	1.00	0.90	-0.11	0.096	2.547	0.840	1.330
Implied yr-on-yr Inf. Rate	13.7	18.3	10.5	10.4	10.5	10.0	9.2	8.6	9.5	10.0
CORE 4:INFXAFE:										
Estimated CPI-CORE4	253.1	274.0	281.2	284.4	285.8	286.4	288.0	299.1	303.3	305.6
Estimated Monthly Change	0.6	0.78	0.60	0.47	0.51	0.02	0.34	1.82	0.84	0.77
Implied yr-on-yr Inf. Rate	7.5	8.2	5.6	5.9	5.9	5.6	5.1	6.4	6.6	6.9
CORE 5:HP Filtering procedure										
Estimated CORE INFLATION	17.7	20.6	17.2	15.9	15.4	14.5	14.4	13.7	13.0	12.7

D. INFAFE , the main indicator of core inflation (INFXAFE), defined to strip out all food as well as energy and utility price changes also went up by 0.3 per cent to 6.9 per cent by the end of July 2005.

e. Applying the HP filtering procedure to the CPI, the month of July 2005 registered a decline in the rate of inflation and moved down to 12.7 per cent. Cumulatively since the beginning of the year, this core measure of inflation had declined by 1.7 percentage points.

1.3 Seasonal Analysis of Inflation

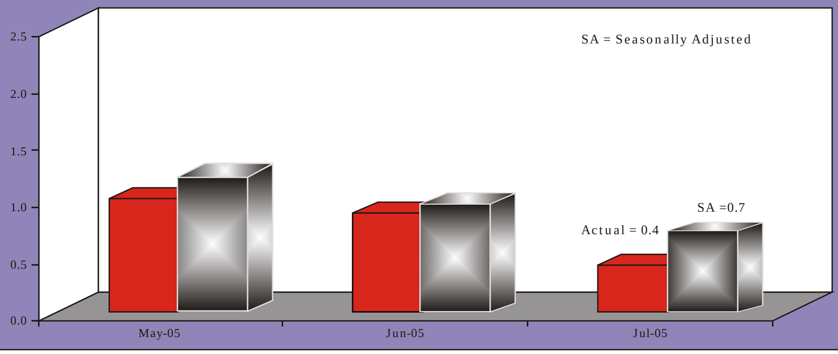
General Seasonal Observation

By July 2005, the movement of the CPI had been in line with established seasonal patterns. Information derived from the seasonal path show no presence of any irregular movements and indications are that the months of August, September and October may witness a much stronger seasonal effect than the patterns observed on 2004. This development, when actualised will expedite the easing of the annual rate of inflation.

Combined Index Seasonally Adjusted

The seasonally adjusted data for the overall CPI index for July 2005 suggested a monthly rise in the CPI index of 0.7 per cent. However, the actual outturn was better at 0.4 per cent. This thus suggests some extra factors aside the seasonal factors, that might have accounted for the huge decline in the rate of inflation that was observed in July 2005.

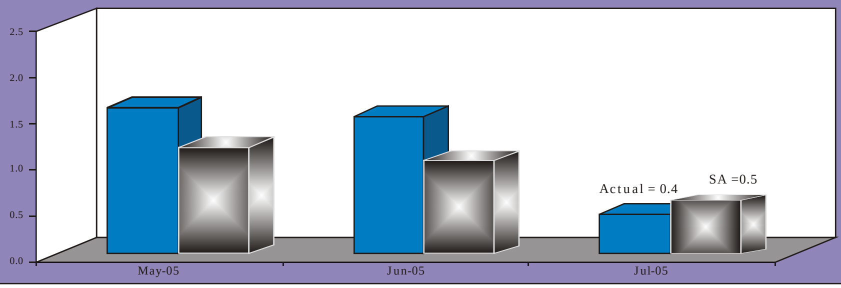
Chart 1: Seasonal Analysis of Overall Consumer Price Index



Food Index Seasonally Adjusted

In July 2005, the actual movement of the overall food prices, as captured in the food price index, was more in line with seasonal trends. Whereas the seasonally adjusted numbers suggested a growth in food prices of 0.5 per cent, the actual reported growth in food prices was 0.4 per cent for July 2005.

Chart 2: Seasonal Analysis of the Food Price Index

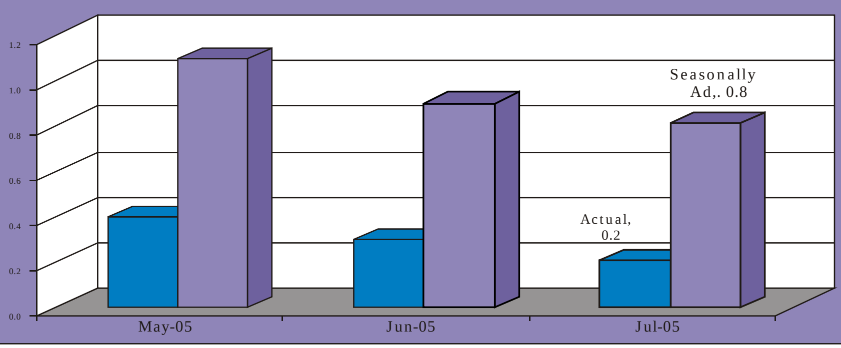


The seasonally adjusted year-on-year (Y/Y) growth in food prices is estimated at 14.2 per cent, compared with the actual outturn for food inflation of 14.6 per cent.

Non-Food Index Seasonally Adjusted

Developments in changes of non-food prices since April 2005 has clearly shown a slight shift from what past seasonally adjusted numbers have predicted.

Chart 3: Seasonal Analysis of the Non-Food Index



The seasonally adjusted series indicated a rise in non-food prices of 0.8 per cent in non-food inflation for July 2005 compared with the actual monthly rise of 0.2 per cent.

On the whole, the seasonal analysis has indicated that the sharp slowdown in the growth of the overall consumer price index for July 2005 was influenced by the relatively better than the seasonally anticipated non-food situation, reflecting, in large, the sound macroeconomic posture of the economy.

1.4. Inflation Outlook and Risks

Developments in key economic indicators over the three quarters ending in September, show the consolidation of the macroeconomic stability, with downward pressure on inflation and interest rates, and the exchange rate has been stable in a relatively liquid foreign exchange market. The preliminary results on the execution of the budget indicate continued reduction in the fiscal deficit and the debt/GDP ratio, easing the pressures on the domestic money market. While the stock market remains bearish, economic activity remains on trend, business confidence generally optimistic, firming up after some softening in the first quarter of the year.

The major downside risk continues to be associated with volatility of crude oil prices on the international market. These are now in the range of US$60 70 per barrel and are not expected to decline given world demand conditions. A sustained surge in prices would be a significant source of pressure on the external payments position and domestic price inflation and a withdrawal of stimulus to growth. The outlook nonetheless continues to be for macroeconomic consolidation providing a basis for achieving the inflation and GDP growth targets for 2005 given the prudent implementation of the fiscal and monetary framework and the supporting policies.

Chapter 2

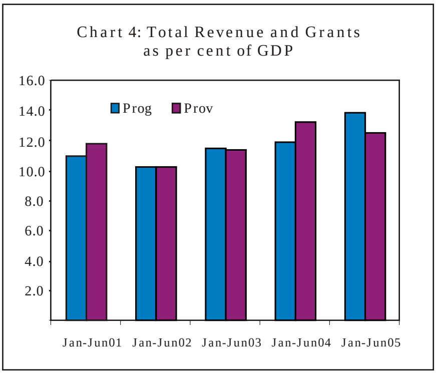
2 FISCAL DEVELOPMENTS

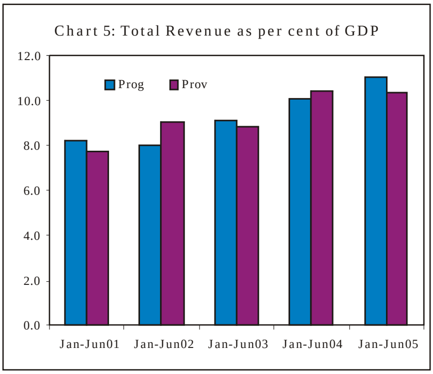
2.0 Introduction

The fiscal performance for the first half of 2005 demonstrates that domestic revenue mobilisation continues to be robust relative to the previous year's levels though lagged behind the target set for 2005 mainly on account of a challenging target for non-tax revenue. Despite the fact that some expenditure compression was undertaken, delayed donor disbursement resulted in a higher domestic borrowing of 1.3 per cent of GDP than an expected domestic repayment of 0.3 of GDP.

2.1 Total Revenue and Grants

Total revenue and grants for the first half of 2005 amounted to ¢12,116.7 billion (12.6 per cent of GDP). As depicted in chart 4, this was about 9.0 per cent less than the programmed level of ¢13,310.1 billion (13.8 per cent of GDP) but higher than the level for the same period last year by 16.0 per cent. The estimated target for the same period last year was however exceeded by about 11.5 per cent. (Whereas total revenue grew by 21.7 per cent above the out turn for the first half of 2004, total grants experienced a reduction in growth by 5.2 per cent fo r the same period.





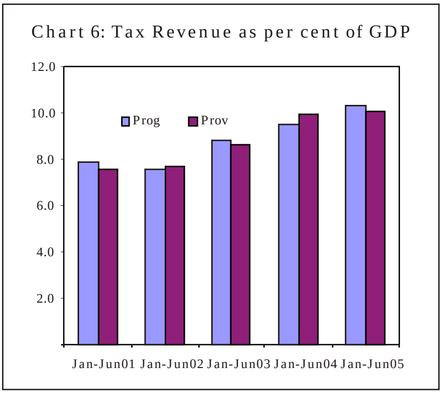
Total revenue amounted to ¢10,011.0 billion (10.4 per cent of GDP) compared with a budget estimate of ¢10,646.4 billion (11.1 per cent of GDP) a shortfall of 6.1 per cent. This was mainly the result of a shortfall in Non-tax revenue (mainly fees & charges) of ¢328.6 billion representing 55.6 per cent less than the budgeted estimate. For the same period last year there was a minimal shortfall of 5.2 per cent.

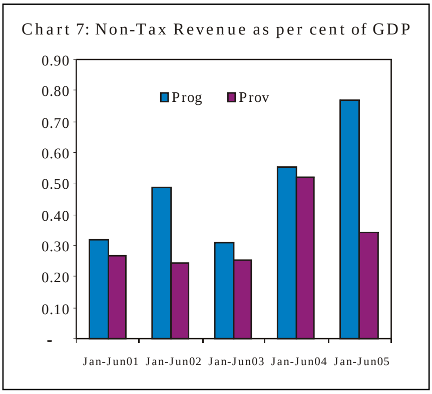
Tax revenue which constitutes about 97.0 per cent of total revenue marginally fell short of its budgeted estimate by 2.3 per cent to register an amount of ¢9,682.3 billion (10.1 per cent of GDP). Tax revenue for the same period last year exceeded the target by 4.5 per cent but represented 9.9 per cent of GDP.

The shortfall in tax revenue reflects in all the components, i.e. indirect taxes, international trade taxes and other revenue measures except direct taxes.

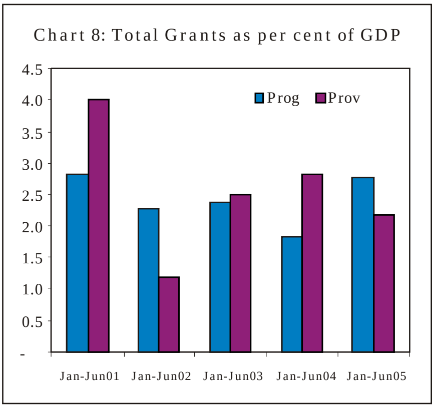
Direct taxes exceeded the budgeted level of ¢2,517.1 billion by 9.6 per cent. This performance was the results of company tax exceeding the target level by 29.7 per cent moderated by shortfalls in personal income tax, self employed tax and other direct taxes.

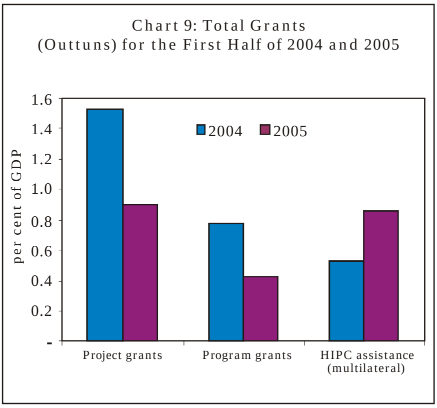
The revenue shortfalls in indirect taxes of about ¢313.3 billion were on account of losses in VAT (mainly import) by 7.6 per cent and petroleum tax by 7.5 per cent. However, other indirect taxes exceeded its budget target by 7.3 per cent to partially mitigate the aforementioned shortfalls.





International trade taxes recorded a shortfall of ¢73.0 billion mainly because export duty witnessed a loss of 31.5 per cent of its target level of ¢284.1 billion.





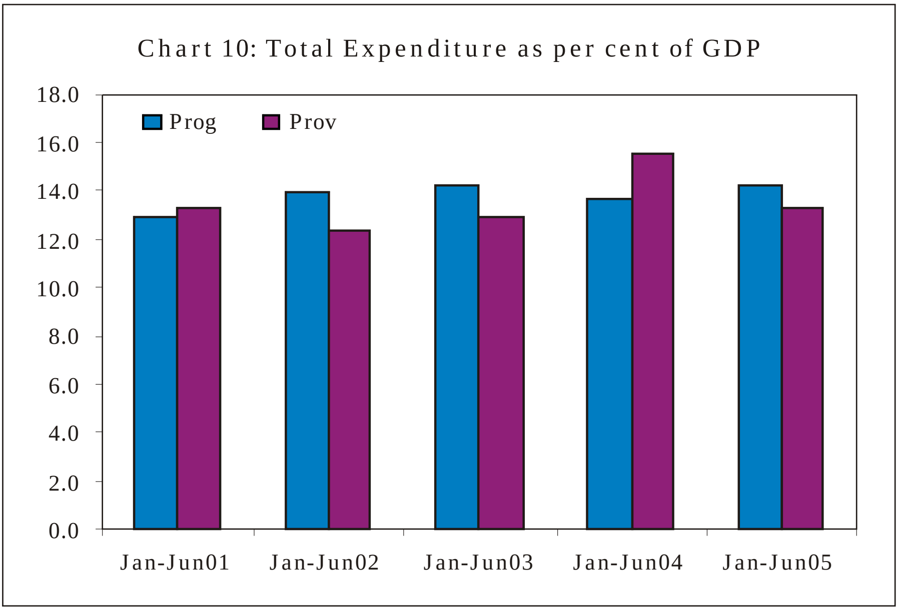
Donor disbursement for the first half of 2005 has been quite sluggish relative to the same period year. Whilst total grants amounted to ¢2,105.7 billion representing 79.1 per cent of the estimated target for Jan-June 2005, there was a significant excess of 52.5 per cent for the same period last year.

Within the components, project and programmed grants recorded shortfalls of 41.2 per cent and 32.9 per cent respectively. However, HIPC assistance was 43.1 per cent above the estimated target of ¢580.4 billion.

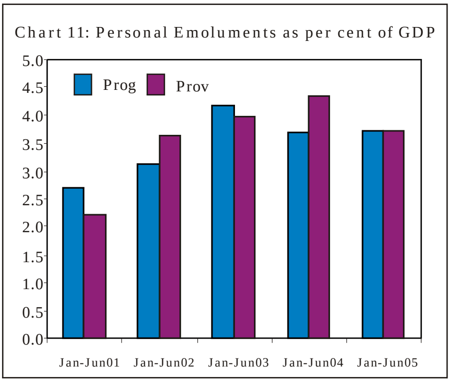
2.2. Total Expenditure

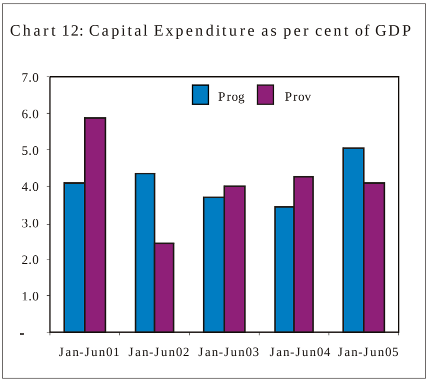
Total expenditure for the first half of 2005 amounted to ¢12,805.2 (13.3 per cent of GDP) compared with the programmed level of ¢13.704.0 billion (14.2 per cent of GDP). For the corresponding period of 2004, total expenditure was 15.5 per cent of GDP, which represented some 13.0 per cent above its budgeted target. (See chart 10).

With the exception of HIPC financed poverty expenditure, which was about 32.0 per cent above the estimated target and an unclassified expenditure of ¢740.6 billion, all the other expenditure items experienced some level of contraction



As shown in Table 7, current expenditure amounted to ¢7,376.2 billion (7.7 per cent of GDP). This outcome was less than both the programmed target of ¢8,249.0 billion (8.6 per cent of GDP) and the outturn for the same period last year of ¢7,402.9 billion (9.4 per cent of GDP). Also, Personal emoluments for the first half of the year was ¢3,577.1 billion (3.7 per cent of GDP), about 0.6 per cent less than the budgeted level. This compares with 4.3 per cent of GDP and 4.0 per cent of GDP for the same periods in 2004 and 2003 respectively. (See chart 11).





Similarly, capital expenditure of ¢3,919.3 billion (4.1 per cent of GDP) was about 19.6 per cent less than the estimated target of ¢4,872.3 billion. This was due mainly to restrained donor disbursement. For the same period in 2004 and 2003, the levels of capital expenditure were 4.3 per cent of GDP and 4.1 per cent of GDP respectively. (See chart 12).

During the first half of 2005, an amount of ¢22.6 billion of road arrears was cleared compared with ¢50.0 billion budgeted level. The payment of ¢696.1 billion in respect of non-road arrears was however higher than the budgeted target of ¢508.7 billion, which was mainly a TOR outstanding payment. These are demonstrated in charts 13 and 14 below.

Chart 13: Road Arrears as per cent of GDP

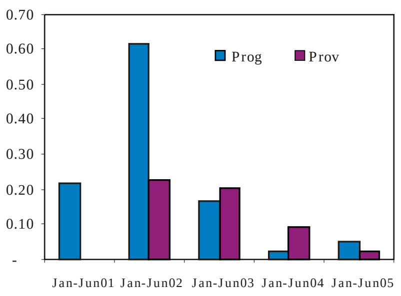
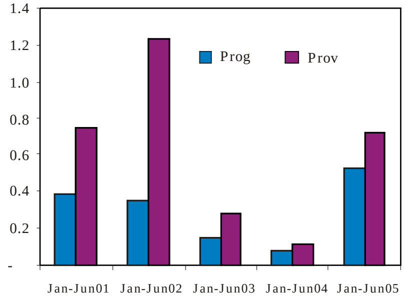


Chart 14: Non-Road Arrears as per cent of GDP

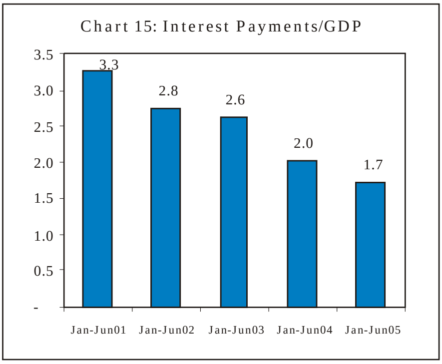


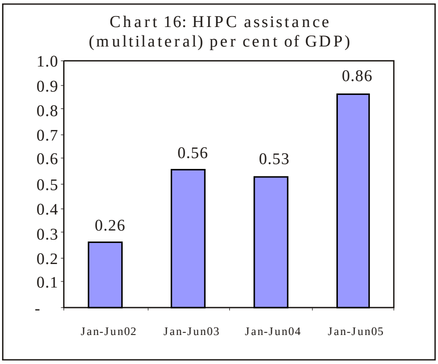
2.3 Fiscal Dividends

As a result of the sound monetary and fiscal policy mix pursued over the period, domestic interest rates have generally been on the declining trend. This coupled with government's decision to access the HIPC initiative have positively impacted on government resources allocated to interest payments as well as beef up the total resource envelope.

For the period under review, the payments of domestic interest was ¢1,222.2 billion, instead of the budgeted level of ¢1,241.6 billion, and external interest was ¢442.4 billion, compared with the budgeted level of ¢513.3 billion.

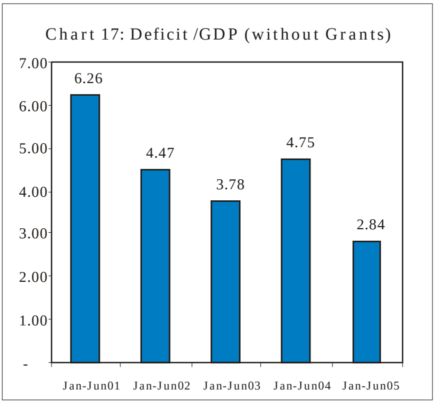
Additionally, the resources accessed from the HIPC assistance has been increasing since the first half of 2002, as depicted in chart 16.

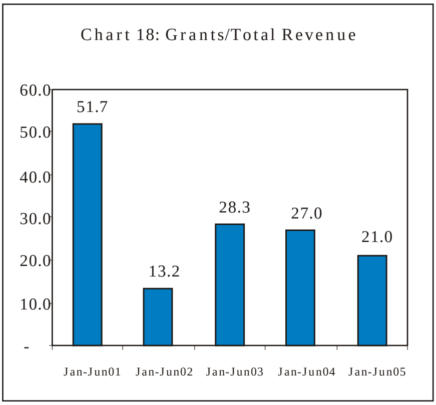




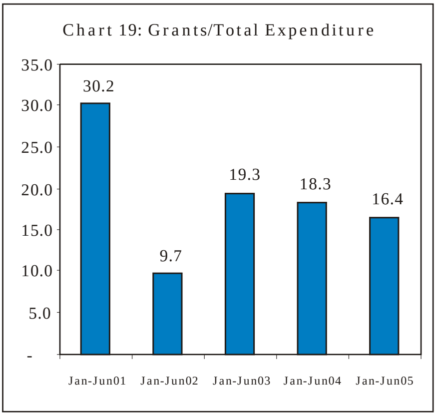
2.4 Fiscal Indpendence

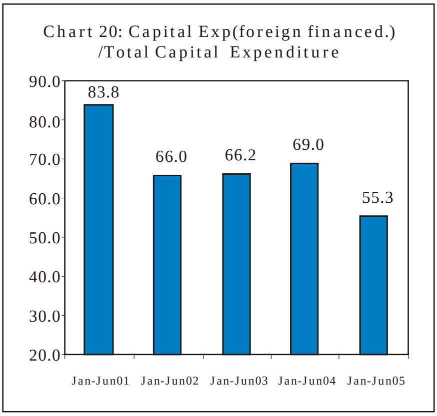
Growth in domestic revenue mobilisation has been sustained since 2001. This was due to the introduction of new revenue measures as well as improvement in tax administration coupled with relatively improved expenditure rationalisation. These developments resulted in the overall fiscal deficit excluding grants generally following a declining trend. This is demonstrated in chart 17 below.





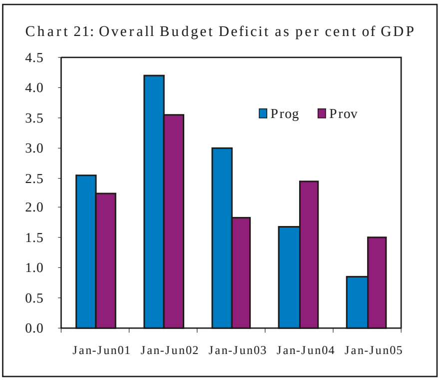
It is also evident from charts 19 and 20 below that the proportion of total expenditure being financed by grants (project and programmed) on half yearly basis has declined from 30.2 per cent of GDP in 2001 to 16.4 per cent in 2005.

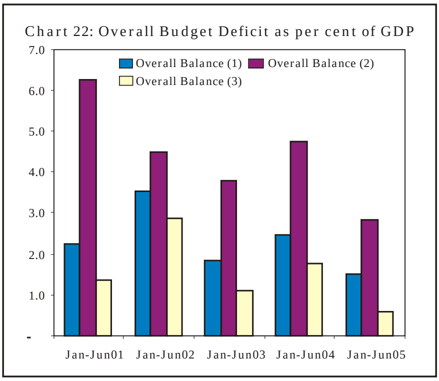




2.5. Overall Budget Balance and Financing

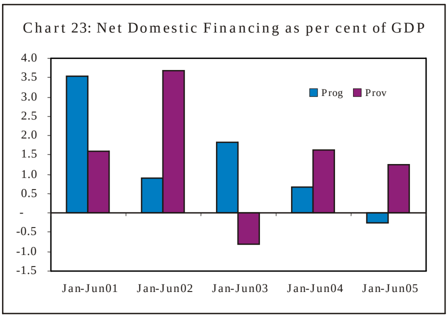
Overall budget balance recorded a deficit (including divestiture) of ¢1,458.2 billion (1.5 per cent of GDP) compared with the target of ¢836.5 billion. The overall budget deficit for the same period last year was ¢1,926.9 billion (2.5 per cent of GDP). The primary balance recorded a surplus of ¢988.0 billion lower than the ¢1,598.5 billion forecast.





Overall balance (1) represents fiscal deficit including divestiture, whilst overall balance (2) represents fiscal deficit including divestiture but excluding grants, while overall balance (3) represents fiscal deficit including divestiture but excluding both grants and foreign financed capital expenditure.

The resource gap of ¢1,458.2 billion was financed through an exceptional financing of ¢455.9 billion and a net domestic borrowing of ¢1,215.3 billion (1.3 per cent of GDP).The excess funds were used to retire a net foreign debt of ¢47.8 billion and accrued interest on inflation indexed bonds of ¢165.3 billion.



Fiscal Developments from January-July of the Year 2005 (Narrow Coverage)

2.6 Total Receipts

Total receipts for the period Jan-July 2005 amounted to ¢13,975.6 billion compared with the period target of ¢14,385.5 billion. Tax revenue of ¢10,727.5 billion registered a shortfall of 3.8 per cent of its target and compares with a tax revenue of 11.8 per cent of GDP for the same period same year. (See Table 3).

This shortfall reflected in the collections of all the revenue agencies except IRS. For the period under review CEPS missed its collections target of ¢6,220.6 billion by 9.0 per cent, whilst VAT managed a smaller shortfall of 4.1 per cent to register a collection level of ¢1,450.3 billion. Cocoa Duty also experienced a shortfall of 27.7 per cent to stand at ¢225.9 billion. IRS on the other hand, witnessed an excess of 9.3 per cent above its target level of ¢3,103.9 billion.

Non-tax revenue collections is the period amounted to ¢383.1 billion and constitutes 44.3 per cent of the projected target. About 98.5 of expected divestiture receipts of ¢194.0 billion did not materialise and donor grants also fell short of the target of ¢779.2 billion by 9.0 per cent. HIPC assistance was however, in excess of its estimated target of ¢677.1 billion by 48.1 per cent.

Table 3: Central Government Budget (Receipts)				
CATEGORY	2003 JAN - JULY OUTTURN	2004 JAN - JULY OUTTURN	2005 JAN - JULY OUTTURN	2005 JAN - JULY ESTIMATES
RECEIPTS	10,101.9	12,149.6	13,975.6	14,385.5
Tax Revenue	6,817.7	9,218.7	10,727.5	11,149.4
per cent of GDP	10.4	11.8	11.1	11.6
CEPS	3,759.3	4,996.3	5,660.4	6,220.6
IRS	2,180.3	2,742.1	3,391.0	3,103.9
VAT	792.0	1,105.1	1,450.3	1,512.3
Cocoa Duty	86.0	375.2	225.9	312.6
Non-Tax Receipts	3,284.2	2,878.2	2,678.5	2,515.5
Non-Tax Revenue	198.9	513.2	383.1	865.1
Grants	926.9	976.6	709.0	779.2
HIPC Assistance	510.3	1,010.2	1,002.9	677.1
Divestiture	259.5	0.0	3.0	194.0
Others	1,388.5	378.2	580.6	0.0
Other Revenue Measures		52.8	569.6	720.6
National Health Insurance Levy		52.8	569.6	
Petroleum Recovery Levy		0.0		
National Reconstruction Levy		0.0		
Timber Licence		0.0		
Domestic Revenue		10,162.8	12,260.8	12,735.1

2.7 Total Payment

Total payments for Jan-July 2005 amounted to ¢14,107.0 billion about 1.6 per cent above an estimated target of ¢13,888.3 billion. This was on account of higher than expected non-statutory payment of ¢5,849.9 billion compared with the target of ¢4,653.1 billion moderated by a lower than expected statutory payments of ¢8,257.1 billion compared with the target of ¢9,235.2 billion.

For the period under review government made some savings amounting to ¢297.8 billion on both domestic and external interest payments, which reflect declining trends in domestic interest rates and dividends from the HIPC initiative.

The amount of ¢4,813.3 billion for wages & salaries and pensions was lower than the estimated target of ¢5,217.2 billion because negotiation for wage adjustment is not yet settled.

Road arrears of ¢22.6 billion has been cleared for the period instead of ¢58.3 billion programmed. Non-road arrears of ¢696.1 billion cleared however exceeded the estimated target of ¢593.4 billion.

Table 4: Central Government Budget (Payments)

CATEGORY	2003 JAN - JULY OUTTURN	2004 JAN - JULY OUTTURN	2005 JAN - JULY OUTTURN	2005 JAN - JULY ESTIMATES
PAYMENTS	9,476.5	12,066.4	14,107.0	13,888.3
Statutory Payments	5,613.7	7,176.4	8,257.1	9,235.2
Interest domestic	1,523.2	1,103.8	1,329.2	1,490.9
Interest external	353.7	429.2	476.6	612.7
DACF	405.1	240.3	462.7	501.9
GET Fund	163.8	441.6	411.6	612.4
Wages & Salaries, Pensions	3,076.5	4,195.6	4,813.3	5,217.2
Social Security Payments	0.0	343.0	288.8	254.5
Road Fund	63.6	380.7	423.7	453.0
VAT Refund	27.8	42.2	51.0	92.6
Non Statutory	3,862.8	4,890.0	5,849.9	4,653.1
Road Arrears	208.6	71.4	22.6	58.3
Non-Road Arrears	334.3	94.4	696.1	593.4
HIPC Financed Expenditure	534.2	816.5	935.0	705.3
MDA Drawings	1,603.4	2,229.1	2,110.4	0.0
Petroleum Expenditure	546.3	944.8	0.0	0.0
Other Payment	636.0	733.7	2,085.8	3,296.0
Domestic Expenditure	7,028.9	10,325.4	11,531.4	11,040.2

The divergence between total receipts and payments resulted in a narrow fiscal deficit of ¢131.3 billion compared with a targeted fiscal surplus of ¢497.2 billion. There was a domestic primary surplus of ¢729.3 billion compared with a target of ¢1,694.9 billion.

Table 5: Other Selected Indicators

Per cent

	Net Domestic Financing % of Projected Rev.	BoG Financing % of Projected Rev.	BoG Financing % of Previous Years Tax Revenue	Stock of Debt % of GDP	Primary Balance % of GDP
2002 Dec	28.2	9.0	12.1	29.67	1.67
2003 Dec	-0.4	-2.4	-3.9	20.83	1.22
2004 Jan	1.6	3.2	4.4	16.57	-0.17
Mar	3.4	2.5	3.3	20.20	-0.23
Jun	7.9	3.5	4.7	21.75	-0.50
Sept	0.6	-4.2	-5.7	21.88	0.5
Dec	2.2	1.2	1.6	21.17	0.31
2005 Jan	-2.5	-3.8	-5.2	17.76	0.74
Feb	2.2	0.6	0.9	17.65	0.58
Mar	.2	0.1	0.2	17.90	1.06
Apr	3.1	0.2	0.3	18.26	1.14
May	3.8	(1.3)	(1.8)	18.82	1.22
Jun	5.3	(2.1)	(2.9)	19.29	0.98
July	6.0	(0.4)	(0.6)	19.04	0.76

Chart 24: BOG Financing of Fiscal Deficit as % of Previous Years Tax Revenue

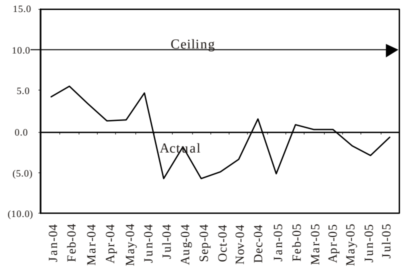
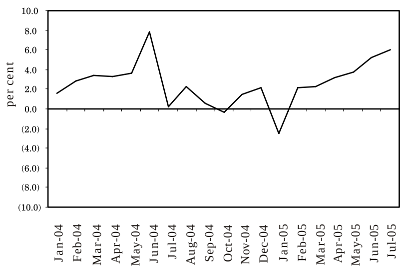


Chart 25: Domestic Financing as a % of Projected Total Revenue



The resource gap of ¢131.3 billion was financed through a net domestic borrowing of ¢1,434.1 billion (1.5 per cent of GDP), where the excess funds were used to repay a foreign debt of ¢1,137.6 billion and accrued interest on GGILBs of ¢165.3 billion.

The year 2004 ended with the stock of domestic debt as a per cent of GDP of 21.2 per cent. This ratio declined to 17.7 per cent in February 2005, edged up slightly to 17.9 per cent in March and subsequently increased to 19.3 per cent in June of 2005. The ratio declined to 19.0 per cent in July 2005.

Table 6: Ghana: Summary of Central Government Budgetary Operations & Financing (Billions)										
	01 Prog. Jan-Jun	01 Prov. Jan-Jun	02 Prog. Jan-Jun	02 Prov. Jan-Jun	03 Prog. Jan-Jun	03 Prov. Jan-Jun	04 Prog. Jan-Jun	04 Prov. Jan-Jun	05 Prog. Jan-Jun	05 Prov. Jan-Jun
I. REVENUE										
Total revenue and grants	4,196.3	4,481.3	4,808.3	4,779.7	7,508.6	7,388.9	9,368.4	10,445.0	13,310.1	12,116.7
Total revenue	3,118.5	2,954.0	3,742.6	4,220.5	5,958.3	5,757.5	7,910.8	8,222.9	10,646.4	10,011.0
Tax revenue	2,996.7	2,852.4	3,513.7	3,588.4	5,757.0	5,593.5	7,475.7	7,810.4	9,906.8	9,682.3
Direct taxes	1,001.5	847.3	1,123.8	1,123.3	1,650.8	1,676.0	2,035.2	2,220.0	2,517.1	2,759.0
Company tax	462.6	393.7	471.9	463.3	707.7	614.2	863.6	927.3	1,022.8	1,326.3
Other direct taxes	538.8	453.6	652.0	660.0	943.1	1,061.8	1,171.5	1,292.7	1,494.4	1,432.7
Indirect taxes	1,371.4	1,403.2	1,642.7	1,634.3	2,504.5	2,633.4	3,707.6	3,855.2	4,849.4	4,536.2
VAT	907.6	971.8	958.4	985.3	1,381.3	1,554.5	1,916.9	1,925.0	2,598.8	2,400.4
Domestic	286.1	298.2	362.1	293.8	512.1	462.0	646.3	663.4	910.6	920.1
Imports	621.5	673.7	596.3	691.4	869.2	1,092.4	1,270.6	1,261.6	1,688.2	1,480.2
Petroleum	328.3	284.9	527.0	491.7	894.7	861.4	1,487.2	1,635.5	1,879.3	1,737.5
Other indirect taxes	135.5	146.5	157.4	157.4	228.5	217.5	303.6	294.7	371.3	398.3
International Trade taxes	623.8	601.9	717.6	830.8	1,177.8	1,209.8	1,602.6	1,735.2	1,938.3	1,865.3
Import duties	528.3	537.7	587.6	685.7	958.8	1,117.2	1,243.1	1,328.5	1,653.6	1,670.2
Export duty	95.5	64.2	130.0	145.1	219.0	92.6	359.5	406.7	284.7	195.1
Other Revenue Measures			29.6	-	423.9	74.4	130.3	-	602.0	521.9
Nontax revenue	121.8	101.6	228.9	115.4	201.3	164.0	435.2	412.5	739.6	328.6
Other revenue			-	516.7	-	-	-	-	-	-
Grants	1,077.7	1,527.2	1,065.7	559.2	1,550.3	1,631.4	1,457.5	2,222.1	2,663.7	2,105.7
Project grants	285.6	843.6	471.8	137.6	577.8	556.7	529.2	1,195.9	1,478.2	869.0
Program grants	792.2	683.6	364.4	298.0	678.4	712.4	415.9	610.1	605.2	406.3
HIPC assistance (multilateral)			229.5	123.6	294.2	362.2	512.4	416.2	580.4	830.4
II. EXPENDITURE										
Total expenditure	4,924.3	5,063.2	6,532.1	5,761.8	9,317.9	8,449.3	10,766.4	12,166.4	13,704.0	12,805.2
Recurrent expenditure	3,339.9	2,788.2	4,201.4	3,957.7	6,273.7	5,218.6	6,995.2	7,402.9	8,249.0	7,376.2
Non-interest expenditure	1,735.9	1,540.9	2,546.1	2,666.5	4,155.5	3,496.5	5,228.0	5,798.1	6,494.0	5,711.6
Personal Emoluments	1,022.7	845.1	1,474.4	1,699.4	2,725.0	2,593.5	2,904.6	3,405.5	3,598.6	3,577.1
Goods and services 3/	338.2	111.6	533.4	478.0	979.2	457.4	936.1	806.8	1,049.0	1,032.9
Subventions 3/	163.1	356.6	-	-	-	-	-	-	-	-
Transfers	211.8	227.6	538.3	489.1	451.3	445.6	1,387.3	1,585.8	1,846.4	1,101.6
o/w TOR for under-recovery							504.8	536.1	350.0	348.0
Interest payments	1,604.0	1,247.3	1,655.3	1,291.2	2,118.2	1,722.2	1,767.2	1,604.8	1,754.9	1,664.5
Domestic	1,172.9	978.2	1,146.5	1,000.0	1,679.1	1,280.0	1,277.3	1,198.3	1,241.6	1,222.2
External	431.1	269.1	508.8	291.2	439.1	442.1	490.0	406.5	513.3	442.4
Capital expenditure (total)	1,550.4	2,230.2	2,035.9	1,150.9	2,426.6	2,629.6	2,718.7	3,361.5	4,872.3	3,919.3
Capital expenditure (domestic)	481.4	361.3	641.3	391.0	1,101.6	888.3	1,407.6	1,042.0	1,893.2	1,750.6
Capital expenditure (foreign)	1,069.1	1,868.8	1,394.7	759.9	1,324.9	1,741.3	1,311.1	2,319.5	2,979.1	2,168.7
HIPC financed poverty expenditure			294.7	-	443.4	455.7	448.1	674.7	582.8	769.1
Unclassified Expenditure	34.0	44.8	0.1	653.2	174.3	145.3	604.4	727.3	- 0.1	740.6

Table 7: Ghana: Summary of Central Government Budgetary Operations & Financing (Billions)	01 Prog. Jan-Jun	01 Prov. Jan-Jun	02 Prog. Jan-Jun	02 Prov. Jan-Jun	03 Prog. Jan-Jun	03 Prov. Jan-Jun	04 Prog. Jan-Jun	04 Prov. Jan-Jun	05 Prog. Jan-Jun	05 Prov. Jan-Jun
Overall balance (commitment)	- 728.1	- 582.0	- 1,723.8	- 982.1	- 1,809.3	- 1,060.4	- 1,398.0	- 1,721.4	- 393.9	- 688.5
Road arrears (net change)	- 83.9	-	- 288.0	- 106.1	- 109.9	- 132.8	- 19.0	- 71.4	- 50.0	- 22.6
o/w Commitments for wks executed										
Non-Road arrears	- 145.8	- 284.6	- 163.0	- 576.3	- 98.5	- 182.7	- 63.5	- 94.4	- 508.7	- 696.1
other outstanding arrears										
o/w DACF	-	- 80.5	-	- 74.2	-	-	-	-	-	-
o/w GETF			-	- 172.3	-	-	-	-	-	-
VAT refunds	- 33.6	- 17.5	- 28.8	-	- 48.3	- 27.6	- 65.0	- 39.7	- 78.0	- 51.0
Overall balance (cash)	- 991.4	- 884.0	- 2,203.5	- 1,664.4	- 2,066.0	- 1,403.6	- 1,545.5	- 1,926.9	- 1,030.5	- 1,458.2
Divestiture receipts	28.9	50.7	229.7	8.4	115.4	205.4	204.0	-	194.0	-
Divestiture liabilities	-	- 18.5	-	- 5.7	- 0.8	-	-	-	-	-
Overall balance (incl. Divertiture)	- 962.5	- 851.9	- 1,973.8	- 1,661.7	- 1,951.4	- 1,198.2	- 1,341.5	- 1,926.9	- 836.5	- 1,458.2
Overall balance (incl. Divertiture) 1/	- 2,040.2	- 2,379.2	- 2,810.0	- 2,097.3	- 3,207.6	- 2,467.3	- 2,286.6	- 3,732.9	- 2,919.8	- 2,733.5
Overall balance (incl. Divertiture) 2/	- 971.1	- 510.3	- 1,415.4	- 1,337.4	- 1,882.6	- 726.1	- 975.5	- 1,413.4	59.3	- 564.8
Financing	962.3	851.9	1,973.8	1,661.7	1,951.4	1,198.2	1,341.5	1,926.9	836.5	1,458.2
Foreign (net)	- 378.8	249.7	1,499.4	- 70.5	537.4	1,721.7	707.7	659.1	448.5	- 47.8
Borrowing	815.8	1,069.3	1,647.6	622.3	747.2	1,970.8	890.4	1,123.6	1,726.6	1,299.6
Project loans	783.5	1,025.2	922.8	622.3	747.2	1,189.1	782.0	1,123.6	1,501.0	1,299.6
Program loans	32.3	44.2	724.8	-	-	781.7	108.5	-	225.6	-
Amortization (Paid)	- 644.8	- 352.3	- 962.6	- 692.8	- 1,305.6	- 1,286.0	- 1,419.8	- 862.1	- 1,278.1	- 1,347.4
Exceptional financing			814.4	-	1,095.8	1,036.8	1,237.1	397.5	779.6	455.9
External arrears	- 549.8	- 467.4	-	-	-	-	-	-	-	-
Clearance	- 479.1	- 467.4	-	-	-	-	-	-	-	-
Current (accumulation)		-	-	-	-	-	-	-	-	-
Financing gap			-	-	53.0					
Traditional debt rescheduling			685.1	-	744.8	827.4	741.6	-	350.7	350.7
HIPC Relief (Cologne terms)			129.4	-	243.0	209.4	477.2	397.5	428.9	105.2
Domestic (net) 4/	1,341.1	602.2	417.8	1,732.2	1,202.9	- 523.5	521.7	1,268.5	- 237.3	1,215.3
Banking		- 40.1	417.8	1,013.2	1,202.9	- 2,072.2	521.7	1,604.3	- 237.3	946.4
Bank of Ghana		- 445.4	417.8	1,037.2	1,202.9	- 1,281.8	521.7	631.2	- 237.3	- 496.6
Comm.Banks		405.3	-	- 23.9	-	- 790.4	-	973.1	-	1,443.0
Nonbanks		642.4	-	719.0	-	1,548.8	-	- 175.0	-	268.9
o/w Reduction due to HIPC-financed			71.8	-	80.3	-	90.8	-	100.9	-
Savings due to inflation indexed bonds			56.6	-	211.1	-	112.2	-	30.4	- 165.3
Other							-	- 160.8		
Other Financing (GAP)							-	- 0.7		
Memorandum items										
Domestic revenue (bn cedis)	3,118.5	2,954.0	3,742.6	4,220.5	5,958.3	5,757.5	7,910.7	8,201.8	10,646.4	10,011.0
Domestic expenditure (bn cedis)	2,251.3	1,947.1	3,482.1	3,710.7	5,923.1	5,013.5	7,681.0	8,582.3	9,047.8	9,022.9
Primary balance (bn cedis)	867.3	1,006.9	260.5	509.9	35.2	744.0	229.6	- 380.5	1,598.5	988.0
Overall balance (cash, including divestiture)	- 962.5	- 851.9	- 1,973.8	- 1,661.7	- 1,951.4	- 1,198.2	- 1,300.1	- 1,418.4	- 836.5	- 1,458.2
Nominal GDP	38,014.0	38,014.0	46,875.0	46,875.0	65262	65,262.0	78,650	78,650.0	96,319	96,319.0
Revenue (excl. grants & divest.)		4,840	5,496.2	5,990.0		5,757.5	5,757.5	8,201.8	10,646.4	10,011.0

Chapter 3

3 MONETARY AND FINANCIAL DEVELOPMENTS

3.0 Introduction:

The data at the end of August 2005 indicate that the domestic money market had begun to feel the impact of the policy changes that took effect from the beginning of the third quarter.

DEVELOPMENTS IN MONETARY AGGREGATES

3.1 Reserve Money (RM)

The annual growth of RM continued on a generally declining path through July 2005, moving to 16.0 per cent from 18.5 per cent at end-2004. Available data as of end-August 2005, however, indicate a temporary surge in RM due to increased market liquidity, with RM staying above both the estimated long-term trend and seasonally adjusted paths. Nonetheless, RM growth at 27.8 per cent in August 2005 remained below the growth rate of 33.2 per cent recorded during the corresponding period in 2004.

Over the 12-month period to August 2005, RM growth was driven by a reduced growth of NFA of the Bank of Ghana supported recently by the increased liquidity within the system (Table 8). NFA (in dollar terms) rose by 17.8 per cent ($152 million) compared to 65.7 per cent ($339 million) during the same period in 2004. NDA, on the other hand, recorded an increase of 65.7 per cent in the period due to increased liquidity; government's position at BOG saw a significant improvement. Net claims on government went down by 9.0 per cent compared with an increase of 53.6 per cent during the same period in 2005.

The surge in RM in August reflected entirely in banks' reserves and non-bank deposits. Currency outside banks like earlier in the year went down significantly to 15.2 per cent in August 2005 from 33.7 per cent in August 2004.

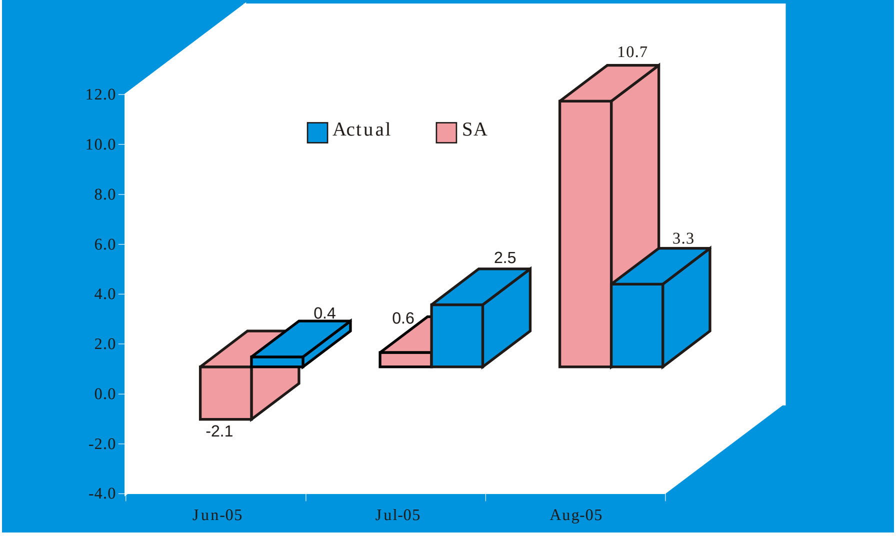
Table 8 : Sources of Growth in Reserve Money (RM): BOG Aug 2002 to Aug 2005 (in billion Cedis)							
					year-on-year growth		
	Aug-2002	Aug-2003	Aug-2004	Aug-2005	Aug-2003	Aug-2004	Aug-2005
Net Foreign Asset	158	4501	7722.9	9137.8	2748.7	71.6	18.3
NAF ($ equiv.) $million	19	515.2	853.8	1005.7	2611.6	65.7	17.8
Net Domestic Asset	3792.0	705.5	-786.2	-269.7	-81.4	-211.4	65.7
Of which:							
*Claims on government (net)**	*5380.4*	*4219.6*	6481.1	5899.8	-21.6	53.6	-9.0
Claims on DMB's (net)	*250*	-603.5	-618.1	-1203.9	-341.4	-2.4	-94.8
Reserve Money(RM)	3950.0	5206.5	6936.7	8868.1	31.8	33.2	27.8
Of which:							
Currency	*2938*	4142.1	5538.9	6381.8	41.0	33.7	15.2
DMB's reserves	*970*	972.9	1285.5	1820.9	0.3	32.1	41.6
Non-bank deposits	*42*	91.5	112.3	665.4	117.9	22.7	492.5

* Claims on Government for 2002 and 2003 have been adjusted to take account of Revaluation losses

Seasonally adjusted annual RM growth in August 2005 is estimated at 19.0 per cent compared with the actual growth of 27.8 per cent for the same month. The month-on-month RM (adjusted for seasonality) rose by 3.3 per cent compared with the actual of 10.7 per cent in the month (average actual growth in August over the past six years is 2.1 per cent).

By September 2005 RM had returned to its programmed growth path.

Chart 26: Reserve Money (M-on-M growth)



3.2 Broad Money

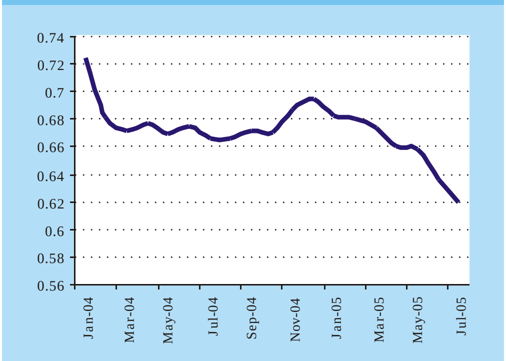
Data on money supply through July 2005 indicate a continued slowdown, reflected in the preference for liquid assets. The annual growth of both M2 and M2+ eased downwards to 21.8 per cent and 20.6 per cent respectively from the end-December 2004 growth rates of 26.4 per cent and 26.0 per cent respectively. For the corresponding period in 2004, the annual growth of M2 and M2+ were respectively 34.9 per cent and 38.3 per cent respectively.

Table 9: Broad Money

Commercial Banks	*1399.7*	*1619.8*	*2298.8*	*2700.9*	15.7	41.9	*17.5*
Net Domestic Asset	10315.1	10558.2	11766.2	15128.1	2.4	11.4	28.6
ow: Claims on government (net)	*9219.0*	*8471.3*	*11048.5*	*14095.8*	*-8.1*	*30.4*	*27.6*
ow: Claims on Private sector(Incl. PE's)	*7541.9*	*8259.2*	*12274.6*	*16648.1*	*9.5*	*48.6*	*35.6*
Other Unclassified items (net)	*-6445.7*	*-5253.0*	*-7091.2*	*-10102.6*	*18.5*	*-35.0*	*-42.5*
Total Liquidity (M2+)	11649.9	16254.5	22487.1	27112.4	39.5	38.3	20.6
Broad Money Supply (M2)	8585.2	12549.4	16931.5	20626.6	46.2	34.9	21.8
Narrow Money Supply (M1)	5341.2	8272.6	11268.6	12779.0	54.9	36.2	13.4
Currency with non-bank puclic	*2900.8*	*4087.8*	*5636.6*	*6332.2*	*40.9*	*37.9*	*12.3*
Demand Deposits	*2440.3*	*4184.8*	*5632.0*	*6446.8*	*71.5*	*34.6*	*14.5*
Quasi-Money	3244.0	4276.7	5662.9	7847.6	31.8	32.4	38.6
Foreign Currency Deposits	3064.7	3705.1	5555.6	6485.8	20.9	49.9	16.7
Foreign Currency Deposits($million)	*375.9*	*424.8*	*614.4*	*714.5*	*13.0*	*44.6*	*16.3*
Memorandum items							
Currency/Deposit ratio	0.3	0.3	0.3	0.3			
Currency/M2+	0.2	0.3	0.3	0.2			
RM Multiplier	2.2	2.5	2.5	2.6			
RM	*3,868*	*5,085*	*6,886*	*7,968*	31.4	35.4	*15.7*

The slowdown in the annual growth rates of broad money over the period July 2004 through July 2005 continued to reflect a measured pace of accumulation of NFA in the banking system, mitigated somewhat by a faster growth in NDA (Table 9). The NFA grew by 11.8 per cent over the 12-month period to July 2005 compared with 88.2 per cent during the same period in 2004. NDA on the other hand grew by 28.6 per cent from the recorded rate of growth of 11.4 per cent during the same period in 2004. The growth in the NDA of the banking system was driven by increased domestic credit, claims on the private sector (including PEs), and net claims on government.

Chart 27: Ratio of M1 and M2



Interestingly, the general decline in broad money is reflected mainly in the preference for liquid assets. The ratio between M1/M2 that reflects the preference for liquidity has declined consistently to 0.62 in July 2005 after stabilising around an average of 0.68 in 2004. However, quasi money remained on a rising trend, reflecting financial deepening (with a shift of portfolio selection from "unproductive" assets to that favouring fixed capital formation)

3.3 Developments in Deposit Money Banks' Credit

The annual growth of credit to the private and public institutions by the deposit money banks at end-July 2005 stood at 33.5 per cent (Table 10). This compares with 48.2 per cent at end-July 2004. The private sector continued to get the bulk of credit extended by the DMBs - accounting for ¢3,244.6 billion (82.6 per cent) of the credit flow over the twelve month period to July 2005.

Table 10: DMBs CREDIT TO PRIVATE & OTHER PUBLIC SECTORS (¢Bn)

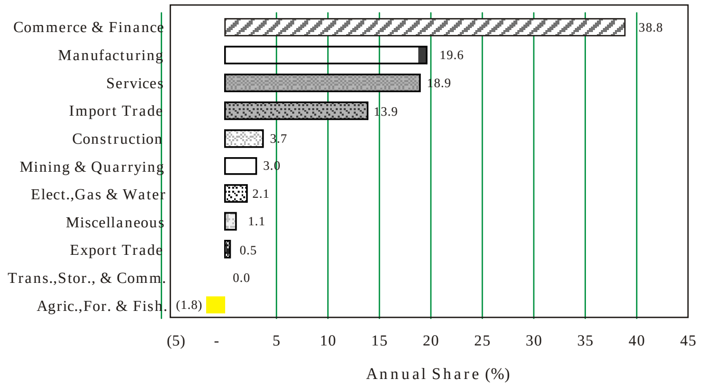
	2004 Jul		2005 Jul		Annual Change		Shares in Annual Change (%)
	¢Bn	Shares(%)	¢Bn	Shares(%)	¢Bn	(%)	
1. Public Institutions	2,215.5	18.9	2,897.8	18.5	682.2	30.8	17.4
2. Private Sector	9,489.6	81.1	12,734.2	81.5	3,244.6	34.2	82.6
Agric.,For. & Fish.	921.7	9.7	863.4	6.8	(58.3)	(6.3)	(1.8)
Export Trade	259.2	2.7	276.4	2.2	17.2	6.6	0.5
Manufacturing	2,170.5	22.9	2,807.5	22.0	637.0	29.3	19.6
Trans.,Stor., & Comm.	389.9	4.1	391.4	3.1	1.5	0.4	0.0
Mining & Quarrying	281.9	3.0	379.5	3.0	97.6	34.6	3.0
Import Trade	863.9	9.1	1,314.1	10.3	450.2	52.1	13.9
Construction	740.2	7.8	860.7	6.8	120.4	16.3	3.7
Commerce & Finance	1,083.0	11.4	2,343.3	18.4	1,260.4	116.4	38.8
Elect.,Gas & Water	72.8	0.8	141.0	1.1	68.2	93.7	2.1
Services	1,250.9	13.2	1,865.6	14.7	614.7	49.1	18.9
Miscellaneous	1,455.6	15.3	1,491.4	11.7	35.8	2.5	1.1
3. Total (1+2)	11,705.1	100.0	15,631.9	100.0	3,926.9	33.5	100.0

Analysis of Credit to the Private Sector

Credit to the private sector by DMBs over the 12-months to July 2005 increased by ¢3,244.2 billion (34.2 per cent). The distribution of credit within the private sector remained more pronounced in the commerce and finance (38.8 per cent), manufacturing (19.6 per cent), services (18.9 per cent) and import trade (13.9per cent). All other sub-sectors with the exception of agriculture (excluding cocoa related financing) recorded some increases over the period (Table 10).

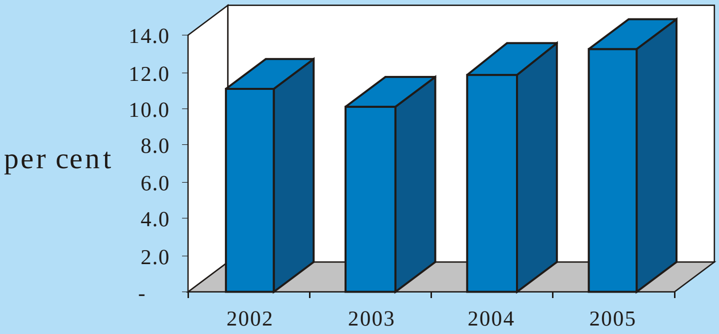
In real terms, credit to the private sector in the year continued on a rising path. In July 2005, real credit rose to 16.8 per cent, up from 14.1 per cent and 12.6 per cent respectively at end-June and end-March 2005.

Chart 28: Share in Credit to the Private Sector in the Twelve months to July 2005



After a marginal drop of 0.2 per cent in June 2005 to 12.5 per cent of GDP, credit to the private sector increased significantly to 13.2 per cent of GDP in July 2005. This compares with 11.9 per cent and 10.1 per cent in 2004 and 2003 respectively thus remaining one of the highest in the last four years (see Chart 29).

Chart 29: PSC to GDP ratio (2002 - 2005)



	Jul-02	Jul-03	Jul-04	Jul-05
PSC to GDP ratio (2002 -2005)	11.0	10.1	11.9	13.2

3.4 Money Market Developments

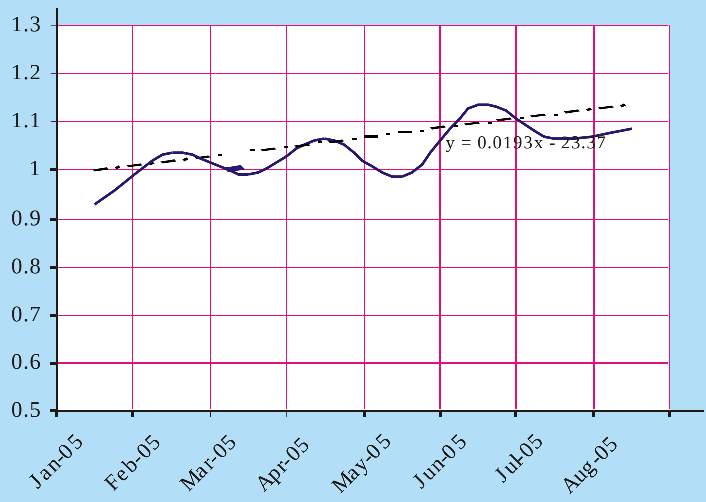
Developments in the money market in the third quarter of 2005 generally reflected continued declining interest rates resulting from lower average government borrowing and increased liquidity of banks following the revision of secondary reserve requirements from 35.0 per cent to 15.0 per cent in July.

The process of separating securities auctions between BOG and for funding of the public sector started in July. In line with this, and in order to enhance flexibility in managing market liquidity, a new BOG instrument the (14-day Bank of Ghana bill) - was introduced in July along side the already existing bills. In its incipient period, interest rates on the liquidity management market remained slightly higher than the yield on the 91-day treasury bill, though they remained within the narrow band of short-term interest rates.

3.4.1 Analysis of Activities on the Auction Market

Activities on the auction market in the year, through August 2005, have been marked by a strong and sustained demand for cedi denominated assets especially in recent times. The bid-cover ratio (i.e. the ratio of the total amount of tenders received to the total amounts offered at the auctions) averaged around 1.06 between January and August it was 1.11

Chart 30: Bid-Cover ratio

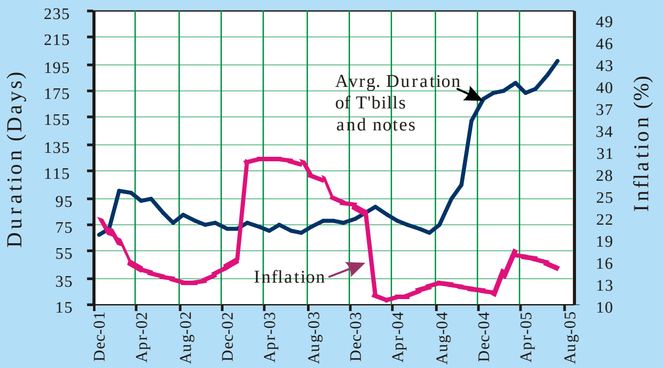


in the last two months. This has occurred notwithstanding the significant downward revision of secondary requirements as well as the general decline in interest rates, thus revealing the high demand inelasticity [1](estimated at an average of 0.007 in 2005) for the securities in the auction market.

3.4.2 Maturity Structure of Outstanding Government Securities

Available statistics in August on the maturity profile of the outstanding stock of government securities indicate that the market share of the 91-day treasury bill eased downwards to 48.0 per cent in August 2005 from 57.0 per cent at the end of June 2005. On the other hand, as expectations of declining interest rates strengthened, interest in the longer-dated instruments especially the 2-year fixed strengthened. The share of the longer-dated securities together increased from 18.2 per cent at the end of 2004 to 30.0 per cent at the end of August 2005.

Chart 31: Average Duration of treasury bills and notes and Inflation



The shifts in the relative market shares of the outstanding stock of government securities have implied a continued lengthening of the average maturity and thus a reduction in the rate of turnover of these securities. Over the 12-month period to August 2005, the turnover rate of government securities fell to 1.74 times per year from the high of 4.84 times per year in August 2004. This was primarily, supported by the introduction of the medium-term Government of Ghana instruments as well as the easing inflationary expectations.

[1] *For a more precise measure of the degree of dollarization, these indicators should include foreign currency deposits held abroad by local residents. Also, the accurate measurement of the degree of dollarization depends on the limitations that monetary authorities impose on the circulation of foreign currency, its use in domestic transactions, alternative financial instruments in foreign currency and capital flows.*

Table 11: Maturity Structure of Outstanding Government Securities

Security	2004				2005					
	Aug ¢bn	Share (%)	Dec ¢bn	Share (%)	Jun ¢bn	Share (%)	Jul ¢bn	Share (%)	Aug ¢bn	Share (%)
91 Days*	8701	60	8,450	56.8	9,744	57	9,082	54	7,654	48
o/w OMO	5518	38.2	5,068	34.1	5,495	32	5,518	33	4,621	29
182 Days	2670	18.5	2,691	18.1	2,177	13	2,176	13	2,370	15
1-Year	1514	10.5	1,030	6.9	859	5	954	6	1,177	7
GGILBs	1552	10.8	507	3.4	225	1	225	1	225	1
2year Floatig			1,599	10.7	2482	15	2,519	15	2,597	16
2year Fixed			333	2.2	1212	7	1,525	9	1,736	11
3year Floatig			113	0.8	134	1	134	1	134	1
3year Fixed			157	1.1	159	1	159	1	159	1
Total	14,437	100	14,880	100	16,992	100	16,774	100	16,052	100

3.4.3 Holding Structure of Outstanding Government Securities

The holding structure of government securities (including the 91-day treasury bills held for BOG's OMO) shows that, notwithstanding the review of the secondary reserve requirements beginning July 2005, the DMBs continued to dominate through August 2005. Between June and August 2005, DMBs recorded the highest gain in market share, moving from 53.3 per cent to 55.8 per cent. Individuals, similarly, recorded a slight gain of 0.6 per cent over the same period. All the other holders, except BOG whose share remained unchanged, recorded some declines in their market shares.

An analysis of the maturity profile of the holdings of the DMBs however indicates that banks have yet to respond to the abolishing of secondary reserve requirements on the longer-dated instruments as these have continued to record increases.

Table 12: Holding Structure of Outstanding Government Securities

Holder	2004				2005					
	Aug ¢bn		Dec ¢bn	Share (%)	Jun ¢bn	Share (%)	Jul ¢bn	Share (%)	Aug ¢bn	Share (%)
Banking System	6698.4	46.4	7580.0	50.9	9,357	55.1	9287	55.4	9226	57.5
BOG	170.5	1.2	280.5	1.9	293	1.7	276	1.6	276	1.7
DMBs	6527.9	45.2	7299.5	49.1	9,064	53.3	9011	53.7	8950	55.8
Insur. Cos	1630.1	11.3	1372.3	9.2	926	5.4	918	5.5	656	4.1
Firms & Institutions	2105.3	14.6	1869.2	12.6	2,909	17.1	2670	15.9	2475	15.4
Individuals	4002.3	27.7	4059.0	27.3	3,799	22.4	3899	23.2	3694	23.0
Total	14,436	100	14,880	100	16,991	100	16,774	100	16,052	100

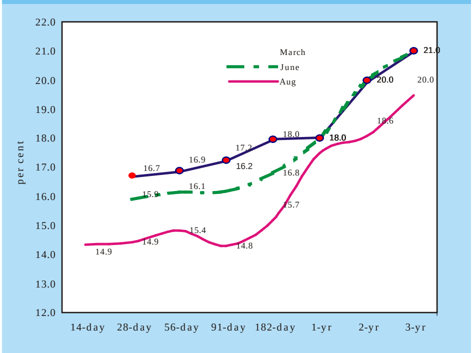
Interest Rates

LAST MPC POLICY DECISION

After assessing the balance of risks in the outlook, the MPC on September 12, 2005, announced its decision to cut the Bank of Ghana Prime Rate by 100 basis points to 15.5 per cent.

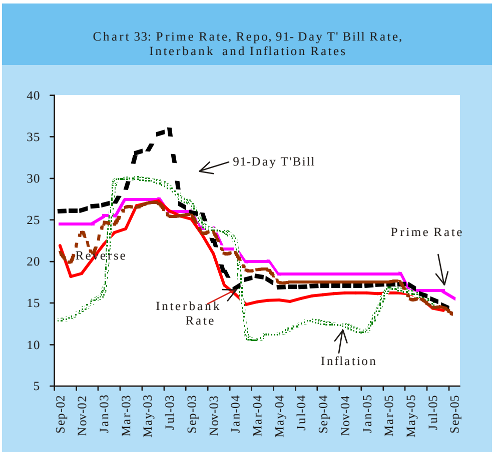
3.4.4 The Yield Curves

Chart 32: The Yield Curves (March, June and August 2005)

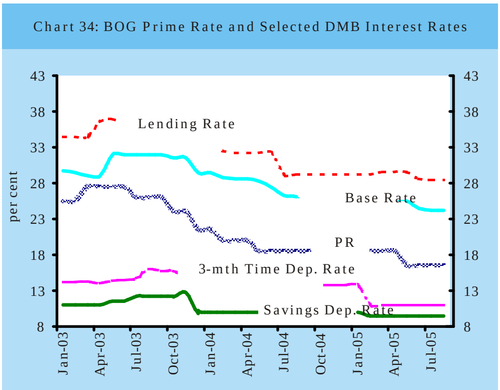


The easing of monetary policy stance, which was started in May 2005 and followed by major reforms in the money market, is reflected well in the downward shifting of the yield curve. While long-term yields have started to decline, the shape of the yield curve for the Government of Ghana securities remains steeper, depicting greater relative return at the longer end of the curve. The declines in interest rate on the auction were also supported by reduced borrowings by the government as well as a continued easing of inflationary pressures.

3.5 The BOG Prime Rate, Repo, Interbank, 91-day T- bill rate and the Inflation rate



The general decline in interest rates on the money market also resulted in some realignment of short-term rates. On the interbank market, increased market liquidity resulted in a consistent decline in overnight rates to 14.38 per cent in July and further to 14.13 per cent in August from 15.53 per cent in June 2005. With these movements, the interbank rate moved below the reverse repo rate. However, the current MPC rate decision, cutting the prime rate by 100 basis points, has given rise to the reverse repo rate moving below the interbank rate with incentive for dealings on the interbank market.



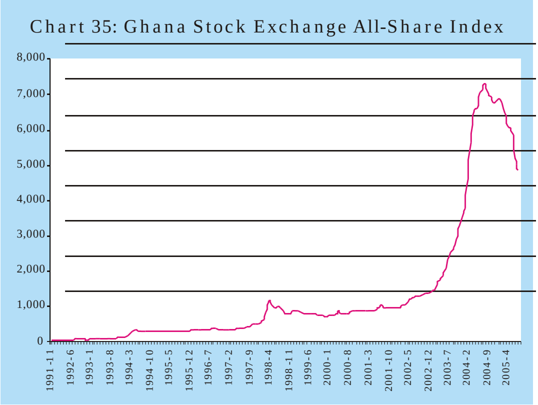
The general decline in interest rates also affected some of the rates of the DMBs. Average lending and base rates of the banks dipped by 1.17 and 1.30 per cent respectively to 27.92 and 23.7 per cent respectively between May and August 2005 in response to the cut in the prime rate in May.

3.6 Stock Market Developments

The Ghana Stock Exchange All-share Index:

The Ghana Stock Exchange in the third quarter continued to face bearish sentiments. The All-share index, the main gauge of the market, at the end of August 2005 recorded a loss of 28.8 per cent (or 28.9 per cent in dollar terms). Over the same period in 2004, the index had recorded a dollar gain of 102 per cent due to the sharp share price rises. Subsequent to these sharp price surges was a realignment of the prices with the earnings of the companies, a process that has occurred for the most part in 2005.

3.6.1 Historical Trends on the Ghana Stock Exchange



The Ghana Stock Exchange for the five consecutive years through 2004, posted continued sterling gains. The All-Share Index, by the close of 2003, topped performance of stock markets in the world with a yield of 154.7 per cent (or 142.7 per cent in dollar terms). This trend continued until Q3 of 2004. However, from the last quarter of 2004 the market has faced bearish sentiments with the index ending August in the negative zone.

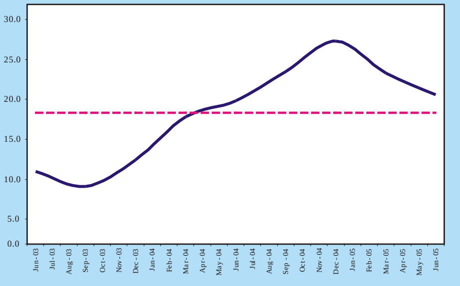
These bearish sentiments initially cut across the globe due to the rising oil prices and a string of interest rate hikes as well as renewed concern over inflation among others. Their effects were however short-lived in most developed and emerging markets with their stock market picking up significantly in the second quarter of 2005. While a few stocks have recently started to record some gains, the index continues to face some bearish feeling. All of these occurred within a significantly improved macroeconomic setting.

Recent trends on the Stock Exchange reflect a continued correction in the stock prices. This is shown by the P/E ratios of all companies listed on the market.

P/E ratios are ratios of share prices to earnings. The P/E ratio of a stock is equal to the price of a share of the stock divided by per share earnings of the stock. For a stock index, the P/E ratio is calculated the same way the average share price of the firms in the index divided by the average earnings per share of these firms. This ratio helps in determining whether or not stocks are reasonably priced and thus help predict the long-term changes in the index. The reasoning here is that a low P/E ratio tends to be followed by rapid growth in stock prices in the subsequent period while a high P/E ratio is followed by slow growth in stock prices.

A decline in the P/E ratio back to its long-term average could occur in two ways either through slower growth in stock prices or faster growth in earnings. Of these two possibilities, only slower growth in stock prices would imply a negative outlook for the stock market.

Chart 36: GSE: PE Ratio



The P/E ratio for the GSE All-share index remained well above its long-term average in the past few years (Chart). In the chart, the denominator of the P/E ratio is realized earnings in the most recent past. Defined in this way, the P/E ratio varied mostly between 9 and 27 since 2000, averaging at some 18.3 over the past two years. The P/E ratio moved above 18.3 in mid- 2004, peaking in December of the same year. Afterwards, the ratio has declined consistently to 20.6 in June, thus reflecting the slower growth of prices recorded in the period. This trend has however somewhat abated currently with a few stocks recording marginal price gains.

Other reasons that have been noted include: market on the cyclically declining path; pre-mature surges in prices of the 2004 IPOs and the activities of speculative buyers; Blue Mont's cancelled IPO (which somewhat affected investor interest in especially the recent Golden Web IPO)

CONCLUSIONS

Implementation of monetary policy in the year through August 2005 has remained broadly consistent with the programme.

- Growth of the monetary aggregates remained generally on a continued declining path through the third quarter.

- Credit to the private sector continued on a rising path. In July 2005, real credit rose to 16.8 per cent, up from 14.1 per cent and 12.6 per cent respectively at end-June and end-March 2005. In terms of per cent of GDP, credit to the private sector increased significantly to 13.2 per cent of GDP in July 2005. This compares with 11.9 per cent during the same pair in 2004 and 10.1 per cent in 2003 and thus remains one of the highest in the last four years.

- This policy changes that took effect from the beginning of the third quarter had significant impact on the money market.

- In line with the changes in the yield curve, provisional data in August on the maturity profile of the outstanding stock of government securities indicate that the market share of the 91-day Treasury bill significantly eased downwards. On the other hand, as expectations of declining interest rate strengthened, interest in the longer-dated instruments soared though somewhat below their targets.

- The general decline in interest rates on the money market also resulted in some realignment of short-term rates with the interbank overnight rate the 91-day treasury bill rates moving briefly outside the interest rate corridor. The current MPC rate decision has however realigned the rates in the market with the reverse repo rate currently below the interbank rate.

- The current trends on the market reflect a continued correction in the stock prices. This is shown using the P/E ratios of all companies listed on the market. A few stocks have however started to inch upwards reflecting the substantial price realignment that has already taken place.

Chapter 4

4 WORLD ECONOMIC OUTLOOK & EXTERNAL SECTOR DEVELOPMENTS

4.1 The World Economy

The global economy has shown remarkable resilience to the succession of oil price hikes in nominal terms. The price of a barrel of West Texas Intermediate has risen from $18 in November 2001 to record levels and hit $70 in August. This is similar in scale to the price jumps of 1973-74 (OPEC oil embargo), 1978-80 (the Iranian revolution), and 1989-90 (Iraq's invasion of Kuwait) all of which were followed by worldwide recession and rising inflation. Currently, global GDP growth is well above trend and inflation remains low.

The resilience in the global economy may be explained by:

- Although the current price increase is about as big as those in previous episodes, it has been more gradual. Whereas, in 1979, the price of oil doubled in only 6 months; this time it took 18 months to double, giving households and firms more time to adjust and so doing less damage to their confidence and finances and hence to economic activity.

- Also, while nominal oil prices are high, in real terms they are yet to reach the levels of the oil shock in the early 1980s. A study has estimated the May 1980 peak price of a barrel of West Texas Intermediate, the benchmark US crude oil, as equivalent to $94 in today's money considerably higher than the $70 reached last month.

- If oil prices rise because of a shortfall in supply (as in the previous cases), they will unambiguously cause GDP growth to fall. However, if higher oil prices reflect strong demand (as in the current episode), then they are the product of healthy global growth. They will, therefore, be less damaging.

- Finally, policymakers have not reacted to higher prices with aggressive tightening of policy. This certainly helps the world economy to cope in the face of such high prices.

4.2 Survey of Monetary Policy Stance

4.2.1 United States

On 09 August, 2005 the Fed lifted the headline Fed funds rate for the tenth time running to guard against inflationary pressure, and signalled that it would stay on a slow but steady tightening course. As expected, the 10-member Federal Open Market Committee (FOMC) voted unanimously to take the policy rate to 3.5 per cent.

In a statement, the Fed reaffirmed that its monetary policy remains "accommodative" to economic growth and that any future interest rate hikes would be "measured".

"Aggregate spending, despite high energy prices, appears to have strengthened and labour market conditions continue to improve gradually," the FOMC said. On inflation, the Committee said that "Core inflation has been relatively low in recent months and longer-term inflation expectations remain well contained, but pressures on inflation have stayed elevated," it added.

4.2.2 Euro Zone

On 01 September, the ECB left interest rates unchanged as widely expected. Announcing the ECB's governing council decision, Trichet said, "that although upside risks to price stability in the euro area exist, we continue to see no significant evidence of a build-up in underlying inflationary pressures."

Although the eurozone is suffering low growth - with many of its largest economies faltering - the ECB has been mindful of keeping inflation in check. It has kept rates unchanged at 2.0 per cent for more than two years.

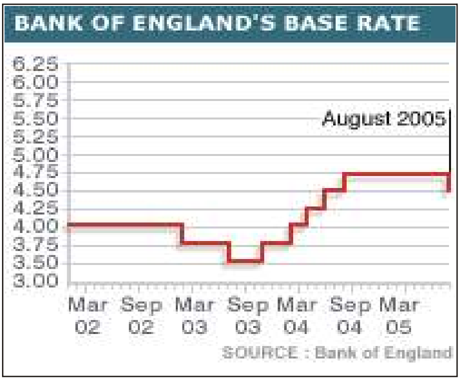
Some commentators believe that rates may still come down before the end of the year but recent economic indicators have proved more robust, making a cut less likely.

The IMF revised its forecasts for Eurozone growth down to 1.3 per cent for this year from 1.6 per cent, and to 1.9 per cent in 2006 from 2.3 per cent.

4.2.3 United Kingdom

At the end of its 100th meeting on 04 August, the Bank of England's Monetary Policy Committee (MPC) cut its policy rate by 25 basis points (bps) to 4.5 per cent. Before this decision, UK rates had been held at 4.75 per cent since August 2004.

Chart 37



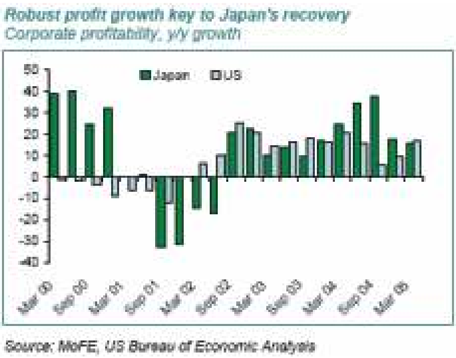
The minutes of the August meeting showed that "doves can overpower hawks if they stick together." The vote among the members to cut interest rates was much closer than expected and saw the Bank's governor Mervyn King and his hawkish supporters being outmanoeuvred by five doves, to deliver the cut in interest rates the markets had been hoping for. It was the first time in the MPC's eight-year history that the governor has been outvoted.

The sterling bounced on the news as economists interpreted the close vote as a further indication that the MPC had no bias to loosen interest rates further and might sit on its hands for some time to come.

4.2.4 Japan

Japan's economy expanded 0.3 per cent quarter-on-quarter (q/q) in the second quarter (Q2), equivalent to a 1.1 per cent annualised growth rate. Japan has had a number of false dawns in the past. What sets this recovery apart from the rest is its composition. Previous reliance on external demand created lop-sided recoveries that was vulnerable to sudden downturns in the global business cycle. This time, Japan is experiencing a slow but steady improvement in private consumption driven by recovering labour market and a robust corporate outlook.

Chart 38



The GDP deflator, the broadest measure of price pressures, rose marginally from -1.0 per cent year-on-year (y/y) in Q1 to -0.8 in Q2, demonstrating that Japan has yet to disentangle itself from the grips of deflation. There is thus little risk of an imminent shift to a tightening stance by the BoJ.

4.2.5 Other Asia - Indonesia

Inflation rose to 7.84 per cent y/y in July (from 7.42 in June) due to a weaker Indonesia Rupiah (IDR) and fuel shortages. Bank Indonesia (BI) said that overall inflation in 2005 might actually exceed its recently revised target range of 7.0-8.0 per cent, given the expected additional hikes in fuel prices.

Chart 39: USD/IDR spot rate: To break 10,000 before recovering

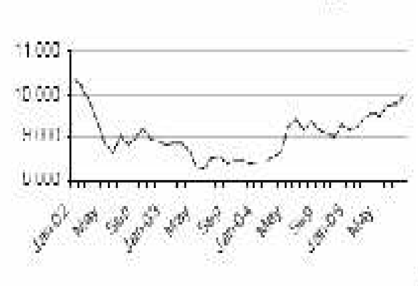
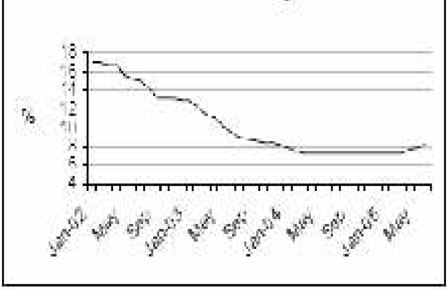


Chart 40: 1 month SBI rate:



Given inflationary pressures, BI raised its BI reference rate target to 8.75 per cent from 8.50. While the hike was considered the right move, markets were surprised, as BI had previously said it would only review its BI rate at the end of Q3. In addition to higher inflation, continual pressures on the IDR and the rise in US interest rates were likely to have prompted BI to hike.

On 25 August, the Managing Director of the IMF, Rodrigo de Rato, said Indonesia must cut government spending on oil subsidies and tackle inflationary pressures by raising interest rates.

On 30 August, BI raised its benchmark interest rate by 75 basis points (bps) to a two-year high of 9.5 per cent to arrest a slump in the currency that was undermining investor confidence in the economy and the government. The higher rates were designed to stem the flow of capital out of the nation after an 8.0 per cent plunge in the value of the rupiah since 18 August. The currency's decline was triggered by a surge in oil prices, which increased the cost of state energy subsidies and demand for dollars to import fuel. Following the decision, the rupiah rose, reversing an 8.9 per cent drop.

4.2.6 Chile

At the end of its monthly monetary policy meeting on 11 August, the Board of the Central Bank of Chile decided to raise the monetary policy rate by 25 basis points, to 3.75 per cent.

Available information at the time showed that output growth was above trend and domestic expenditure was growing strongly. The external sector continued to be favourable, despite the surging oil price. Domestically, monetary conditions continue to be clearly expansionary and investment was growing vigorously.

CPI inflation exceeded 3.0 per cent sooner than forecast; mainly due to the incidence of increased fuel prices and some regulated rates. However, the various trend inflation measures were normalizing, leaving behind the unusually low levels of the past few quarters.

The Board considered that, in the most likely scenario, it would continue to reduce the prevailing monetary stimulus, in order to maintain expected inflation around 3.0 per cent in the normal policy horizon.

4.2.7 South Africa

On 11 August, the South African Reserve Bank's (SARB) Monetary Policy Committee decided to leave the repo rate unchanged at 7.0 per cent at the conclusion of its two-day meeting in Pretoria.

The no-change decision was not unexpected, although the scope for a cut existed, as the CPIX inflation (headline inflation excluding mortgage costs) had been below the midpoint of the SARB inflation target range of 3.0-6.0 per cent (year-on-year) for 18 out of the past 22 months.
The threat posed by high oil prices outweighed an otherwise stable inflation outlook as a factor in the SARB decision in August to keep interest rates unchanged.

4.3 Commodities outlook

An overview of the commodities market as far as Ghana s core trading commodities are concerned shows that the current price of the major export, cocoa, is lower than its year-to-date average; while current crude oil (import) price is higher than its y-t-d average. Together, these developments indicate a deterioration in Ghana s terms of trade. (See Table 13)

Table 13: Overview of the commodities market

		Current	Period averages				Forecast
		(09-Aug-05)	2002	2003	2004	2005 (ytd)	2005
Crude oil							
OPEC Basket	USD/bbl	56.60	24.30	28.10	36.00	48.10	51.00
Softs							
Cocoa (ICCO)	USD/tonne	1,521.00	1,778.00	1,756.00	1,550.00	1,580.00	1,550.00
Precious metals							
Gold	USD/ounce	435.00	311.00	364.00	410.00	428.00	429.00

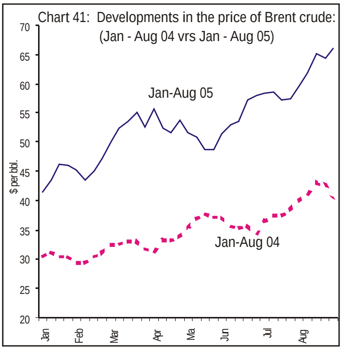
4.3.1 Oil

Even though the market is currently well supplied with crude, the outlook is tight for the now familiar reasons:

- Strong demand growth
- Geopolitical tensions, now including Iran
- Limited spare capacity within OPEC
- Slowing non-OPEC supply growth
- The lags involved in the supply response to high prices
- A shortage of appropriate refining capacity
- Speculative activities

In such an environment, any actual or potential supply disruptions, including even routine refinery maintenance and the traditional hurricane season in the US, raise prices.

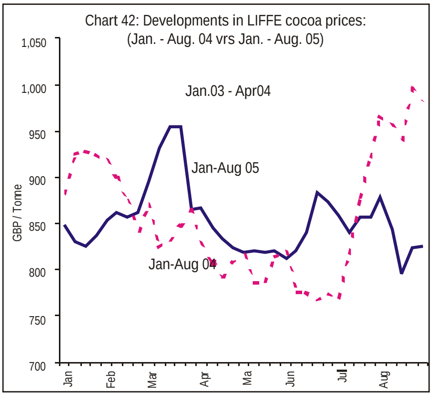
Year-to-date (ytd), price per barrel of the benchmark Brent crude has increased at the rate of $3.05 a month. The end-August price of $66.10 represented an increase of 58.6 per cent ytd and 63.2 per cent in y/y terms.



On a less grim note, oil demand growth is slowing. Both the International Energy Agency (IEA) and Organisation of Petroleum Exporting Countries (OPEC) have recently reduced demand forecasts for 2005. Current IEA forecasts put 2005 demand growth at 1.4mbd (1.7 per cent), followed by 1.8mbd (2.1 per cent) in 2006. This is still robust growth, but not as strong as 2004, when the combined impact of the US and China pushed oil demand up by 2.9mbd (3.6 per cent), compared to an average annual rise of 1.3mbd over the previous decade.

The impact of high prices has further been partly mitigated by USD weakness and low levels of inflation and interest rates.

4.3.2 Cocoa

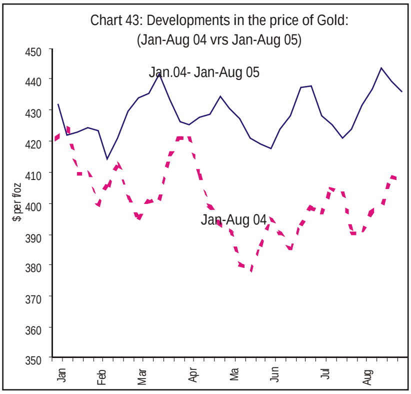


Prices have been volatile, falling on suggestions of higher output in 2005/06, and then rising on uncertainty surrounding Côte d'Ivoire's peace process and election. By ED&F Man's estimates, West African harvests will likely exceed 2004/05's weather-impaired crops, reducing or even eliminating the global supply deficit.

Ytd, the lowest weekly average price was £796.00 per ton recoded in the second week of August. The end-August price was £826 representing a 2.9 per cent decline from the year-opening price of £851.00. In y/y terms, the end-August price showed a decrease of 16.0 per cent.

4.3.3 Gold

Gold's inverse relationship with the USD has been firmly reinstated, with gold rising as the USD has weakened on a trade-weighted basis. Other bullish factors for gold near-term include high oil prices (and their inflationary consequences), intense geopolitical risks and the threats of mine supply disruptions from strikes in South Africa.

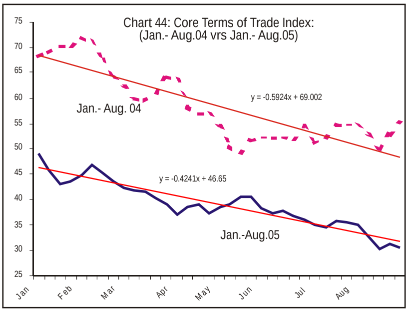


Developments in the international average weekly price of gold are depicted in chart 43. In the last week of August, the average weekly price was $435.00 per ounce, which represented a ytd decline of 0.9 per cent and an increase of 6.9 per cent in y/y terms.

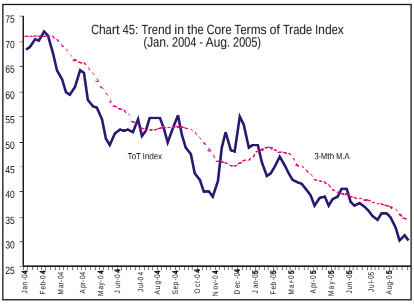
In the longer term, it is expected that the USD, and thus investment demand for gold, will remain the dominant driver of prices through 2006.

4.3.4 Core Terms of Trade Index Benchmark Prices

A core weekly terms of trade index (2002: wk1=100) is constructed for Ghana based on the developments in the prices of the three core items that represent Ghana's merchandise trade. Imports are represented by crude oil, while gold and cocoa represent exports. But gold and cocoa are weighted to reflect the proportions of foreign exchange inflows attributable to the two commodities.



The chart below tracks and compares the developments in the index for the first eight months of 2004 and 2005. Even though the terms of trade worsened in both periods, the fitted trend lines show that on the average the terms of trade worsened more in January August 2004 than in the same period in 2005. The index also



shows greater volatility in 2004 than in 2005 (Standard Deviations of 7.1 and 4.6 respectively).

In the chart below, the index is plotted from January 2004 to August 2005 against its 12-week (or quarterly) moving average. So far in 2005 (except briefly in the third and fourth weeks of May), the index has been below its quarterly trend (indicating a trend deterioration in the terms of trade), due to fall in the price of cocoa and rise in crude oil price.

4.4 Currency Markets

4.4.1 Performance of Selected Major International Currencies

Table 14: MOVEMENTS IN SELECTED INTERNATIONAL CURRENCIES (%)								
	EUR/USD	GBP/USD	YEN/USD	ZAR/USD	CLP/USD	GBP/EUR	ZAR/EUR	CLP/EUR
2001	0.9	1.5	13.2	51.6	15.5	0.9	50.8	15.5
2002	-15.8	-9.4	-4.0	-22.9	5.7	3.8	-11.9	20.5
2003	-15.4	-9.6	-12.1	-27.1	-15.3	9.3	-12.1	3.1
2004	-8.3	-9.3	-3.4	-11.8	-4.0	-1.0	-4.0	4.3
Monthly changes								
Jan-05	2.2	2.7	-0.5	4.3	0.3	0.5	2.1	-1.9
Feb-05	0.7	-0.5	1.6	0.2	-0.6	-1.2	-0.5	-1.3
Mar-05	-1.4	-1.0	0.2	0.4	2.5	0.4	1.8	3.9
Apr-05	1.9	0.5	1.9	2.1	-1.2	-1.4	0.1	-3.1
May-05	2.0	2.2	-0.6	2.9	-0.2	0.2	0.9	-2.2
Jun-05	4.4	2.1	2.0	6.6	1.1	-2.2	2.0	-3.2
Jul-05	1.0	3.9	3.0	-0.7	-1.8	2.8	-1.7	-2.7
Aug-05	-2.2	-2.5	-1.3	-3.6	-5.2	-0.4	-1.4	-3.1
Cum. Chg (%)	8.7	7.3	6.3	12.2	-5.2	-1.3	3.4	-13.5

The dollar's rally against major currencies appears to have ended in July, as the greenback lost ground to the euro, pound, yen, rand and the Chilean peso in August. However, a survey conducted by Bloomberg in August showed that the dollar is poised for near term gains against the euro and other majors amid rising interest rates and the most bullish trader sentiment since June.

4.5 Local Foreign Exchange Market

4.5.1 Nominal performance of the cedi-Bilateral and Effective

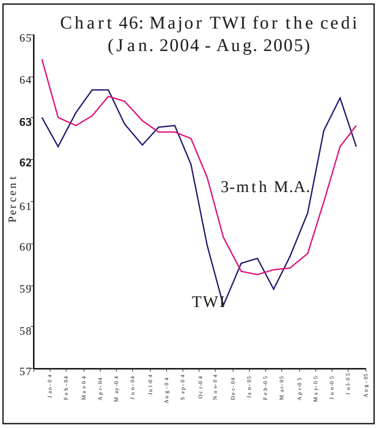
Bilateral Movements

Developments in the nominal bilateral exchange rates of the cedi against the three core currencies the US dollar, the pound sterling and the euro show that for the JanuaryAugust 2005 period, the cedi depreciated, cumulatively, by 0.4 per cent against the US dollar but gained in strength by 6.8 and 10.3 per cent against the pound sterling the euro respectively. This compares with y/y movement of 2.2, 5.5 and 0.2 per cent depreciation against the US dollar and the pound sterling and the euro respectively.

Table 15: Bilateral movements of the cedi against selected currencies

	EXCHANGE RATE			MONTHLY CHANGE (%)			CUMULATIVE (%)		
Month	USD	GBP	EUR	USD	GBP	EUR	USD	GBP	EUR
Dec-03	8,856.70	15,299.72	10,935.01						
Jan-04	8,887.93	16,121.45	11,058.75	0.4	5.4	1.1			
Feb-04	8,927.43	16,521.19	11,264.60	0.4	2.5	1.9			
Mar-04	9,017.40	16,139.81	11,048.21	1.0	-2.3	-1.9	1.8	5.5	1.1
Apr-04	9,039.27	15,874.27	10,671.81	0.2	-1.6	-3.4			
May-04	9,046.30	16,440.98	11,026.21	0.1	3.6	3.3			
Jun-04	9,051.28	16,452.00	10,902.55	0.1	0.1	-1.1	2.2	7.5	-0.1
Jul-04	9,051.08	16,409.33	11,038.24	-0.0	-0.3	1.2			
Aug-04	9,049.87	16,126.32	10,941.61	-0.0	-1.7	-0.9	2.2	5.5	0.2
Dec-04	9,050.39	17,404.00	12,320.00						
Jan-05	9,048.06	16,941.47	11,791.64	-0.0	-2.7	-4.3			
Feb-05	9,055.55	17,273.46	11,986.53	0.1	2.0	1.7			
Mar-05	9,071.57	17,039.62	11,835.07	0.2	-1.4	-1.3	0.2	-2.1	-3.9
Apr-05	9,079.08	17,207.34	11,781.53	0.1	1.0	-0.5			
May-05	9,072.65	16,555.83	11,272.22	-0.1	-3.8	-4.3			
Jun-05	9,073.82	16,356.07	10,938.18	0.0	-1.2	-3.0	0.3	-6.1	-11.6
Jul-05	9,084.36	16,049.25	11,000.25	0.1	-1.9	0.6			
Aug-05	9,082.26	16,234.32	11,080.97	-0.0	1.2	0.7	0.4	-6.8	-10.3

Nominal Effective Exchange Rate (NEER)



The major (or core) Trade Weighted Index (TWI) is an index measure of the value (January 2002=100) of the cedi relative to the currencies of Ghana's top three trading currencies the euro, the pound and the dollar. It is thus an effective index.

In the January-August 2005 period, the cedi appreciated by 3.7 per centage points in trade-weighted terms. This compares with a depreciation of 100 basis points over the corresponding period in 2004. The August 2005 value of the index was 62.3 and was 52 basis points below its quarterly trend represented by the 3-month moving average. In y/y terms, the August 2005 value of the index represented a depreciation of 0.5 per cent.

4.5.2 Real Exchange Rate Developments

The Real Trade Weighted Index (RTWI), which is a total trade (i.e. import plus export) weighted, and the Real Foreign Exchange Transactions Weighted Index (FXTWI), which is a total foreign exchange transactions (i.e. purchases plus sales) weighted, are both real effective exchange rate indices, (January 2002=100) and monitor the real exchange rate developments of the cedi. They track the (geometric) average of the exchange rate changes (in real terms) of the cedi against the three major trading currencies: the US dollar, the pound sterling and the euro.

Table 16: Real Effective Exchange Rate Developments						
Month	REERI (Jan.02=100)		MONTHLY CHG (%)		QTLY CHG. (%)	
	RFXTWI	RTWI	RFXTWI	RTWI	RFXTWI	RTWI
2005						
Jan-05	112.1	88.6	3.4	2.5		
Feb-05	116.5	92.9	4.5	4.3		
Mar-05	120.9	94.8	4.3	1.9	12.2	8.7
Apr-05	121.6	97.4	0.8	2.6		
May-05	123.4	99.8	1.8	2.4		
Jun-05	126.2	103.9	2.7	4.1	5.3	9.1
Jul-05	125.7	105.6	-0.5	1.7	17.0	19.5
2004						
Jan-04	104.6	86.0	-0.9	0.1		
Feb-04	106.0	86.8	1.3	0.8		
Mar-04	106.6	89.0	0.7	2.1	1.1	3.1
Apr-04	108.9	91.2	2.3	2.2		
May-04	110.8	91.8	1.9	0.7		
Jun-04	111.3	92.0	0.4	0.2	4.7	3.1
Jul-04	112.7	92.4	1.5	0.3	7.3	6.5

In Table 16, the real effective exchange rate movements of the cedi against the three core currencies are shown for the period January-July of 2004 and 2005. Even though both indices show real appreciation of the cedi in the first seven months, the magnitudes differ due to the differential weights used in the construction of the two indices.

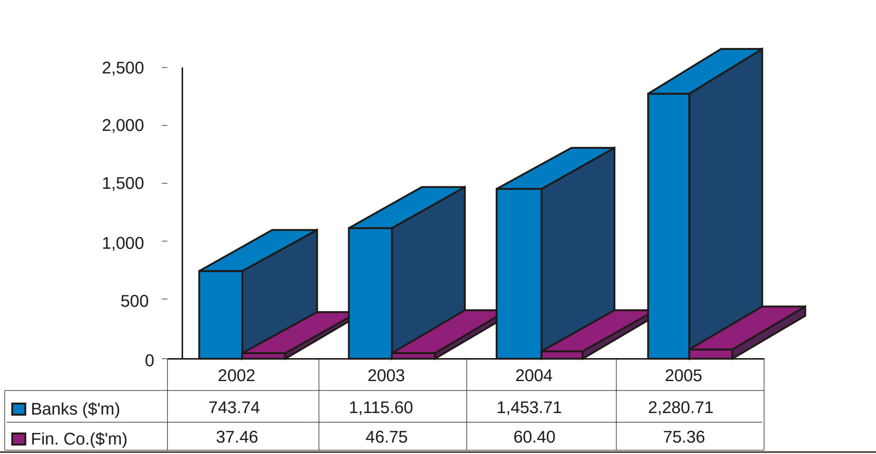
4.5.3 Inward remittances

Private inward remittances from NGOs, religious groups, individuals etc. - through the banks and finance companies for the January-July 2005 period amounted to $2.36 billion, which represents 55.6 per cent increase over the corresponding period in 2004, which were in turn 30.3 per cent increase over the Jan-Jul 2003 level.

Table 17: Inward Remittances: Jan. - Jul. 2004 & 2005				
($'million)				
	2005:Q1	2005:Q2	Jul-05	Total
Banks	939.79	982.10	358.81	2,280.71
Finance Companies	29.26	36.41	9.70	75.36
Total	969.05	1,018.51	368.51	2,356.07
	2004:Q1	2004:Q2	Jul-04	Total
Banks	585.33	643.49	224.90	1,453.71
Finance Companies	26.18	25.88	8.35	60.40
Total	611.50	669.36	233.25	1,514.11
Change ($'million)	*357.54*	*349.15*	*135.26*	*841.96*
Change (%)	*58.5*	*52.2*	*58.0*	*55.6*
Banks' Share (%)-2005	*97.0*	*96.4*	*97.4*	*96.8*
Banks' Share (%)-2004	*95.7*	*96.1*	*96.4*	*96.0*

Of the total remittances in January July 2005, $666.17 million (28.4 per cent) were from individuals. Since 2002, the share of finance companies in total remittances has been less than 5 per cent.

Chart 47: Jan. - Jul Total Remittances (2002 - 2005)



The top five recipient banks accounted for 68.3 per cent of total remittances through banks in the period January-July 2005. The corresponding figures for 2002 through to 2004, depicted in the table below, show continuous decline in the share of the top five banks, an indication of increasing competition among banks in the inward transfer business.

4.5.4 Foreign Exchange Purchases and Sales

Foreign exchange transactions (i.e. purchases plus sales) by banks and forex bureaux in the January-August 2005 period amounted to $3.96 billion, which was 49.9 per cent increase over purchases and sales over the same period in 2004. Transactions by banks alone constituted 84.4 per cent of the January August total in 2005 and 86.9 per cent in 2004.

The share of DMBs in the foreign exchange market has been increasing in trend.

Table 18: Fx Purchases and Sales ($'million)
(January - August)

	Q1	Q2	July	August	Total(Ytd)
2005					
DMBs	1,187.78	1,312.47	416.39	423.12	3,339.76
F/Bureaux	378.16	142.88	47.93	48.37	617.34
Total	1,565.94	1,455.35	464.32	471.49	3,957.09
2004					
DMBs	745.24	888.23	336.19	322.51	2,292.17
F/Bureaux	122.20	126.15	48.01	50.46	346.82
Total	867.44	1,014.38	384.20	372.97	2,638.99
Change in Total ($'m)	698.50	440.97	80.12	98.53	1,318.10
Change in Total (%)	80.5	43.5	20.9	26.4	49.9
Banks' share (%) - 2004	85.9	87.6	231.2	90.1	86.9
Banks' share (%) - 2005	75.9	90.2	89.7	89.7	84.4

Forex Buraux purchases and sales for August 2005 is provisional.

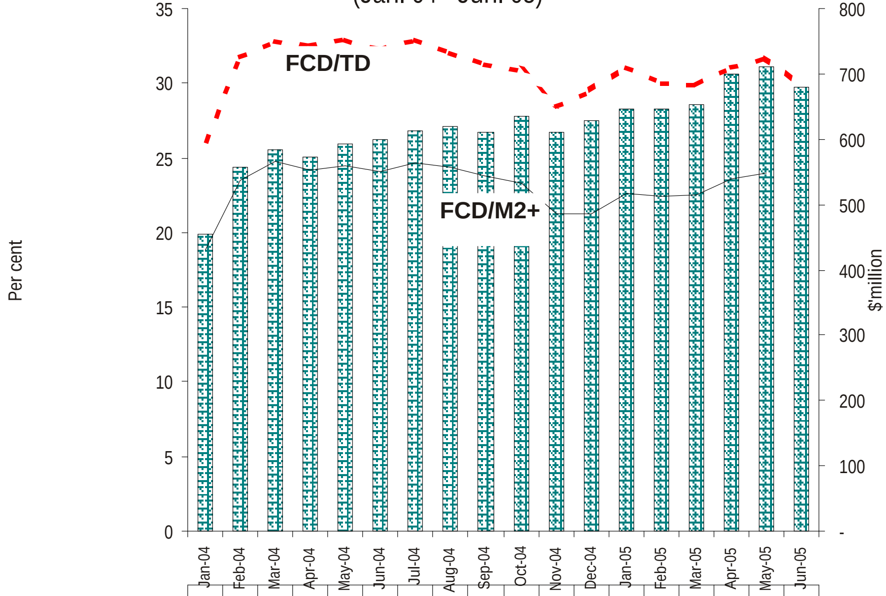
4.5.5 Foreign Currency Deposits (Measures of Dollarisation)

The shares of foreign currency deposits (FCD) in the money supply inclusive of FCD, M2+, (i.e. FCD/M2+) and the share of FCD in total deposits (TD), i.e. FCD/TD, are two of the most common indicators of dollarization. Steady increases in these ratios are an indication of stepped up dollarization of the economy.

The FCD/M2+ ratio was 22.6 per cent in January 2005 and virtually remained flat in the first quarter of the year. In April, it increased by 1.1 per cent to 23.6 per cent and increased further to 24.0 per cent in May. It declined in June to 22.7 per cent.

The FCD/TD ratio was 31.1 per cent in January, but declined slightly in February and March. It was 29.9 per cent in March. It increased to 31.1 per cent in April and further to 31.7 in May. Like the FCD/M2+ ratio, the FCD/TD ratio declined in June. The decline of both ratios in June occurred on the back of 4.4 per cent decline in FCD.

Chart 48: Developments in Foreign Currency Deposits
(Jan. 04 - Jun. 05)

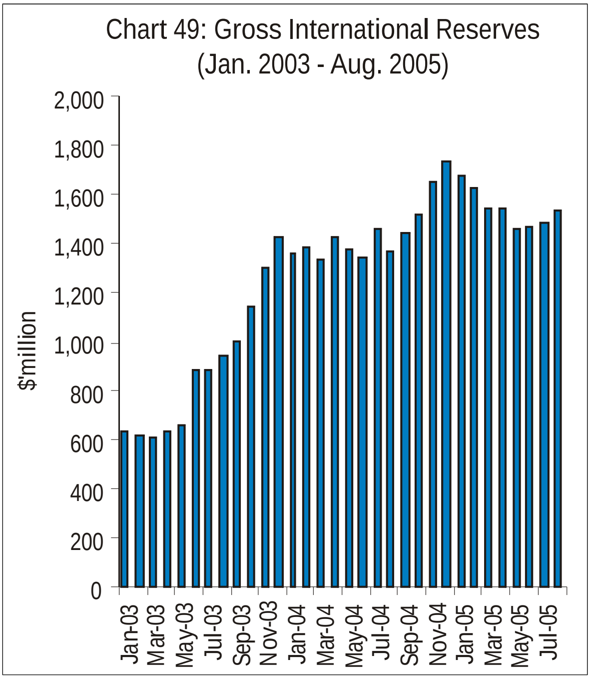


	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
FCD ($'m, R-axis)	455.	556.	582.	572.	592.	599.	613.	619.	610.	635.	609.	627.	647.	645.	653.	699.	710.	678.
FCD/M2+ (%)	18.8	23.5	24.7	24.1	24.5	24.1	24.7	24.4	23.8	23.3	21.3	21.3	22.6	22.4	22.5	23.6	24.0	22.7
FCD/TD (%)	26.1	31.8	32.9	32.6	32.9	32.3	33.0	32.1	31.3	30.9	28.5	29.5	31.1	30.0	29.9	31.1	31.7	29.9

The level of FCD declined from $710.1 million in May 2005 to $678.94 million. The June level represents a 8.1 per cent increase ytd and 13.3 per cent increase in y/y terms.

4.6 Gross International Reserves

From the end-year peak of $1.73 billion, the Gross International Reserve (GIR) position of Bank of Ghana took a downturn in January 2005. The decline continued up to May, where it reached a trough at $1.56 billion. In June, it increased marginally by 0.7 per cent and was followed by similar marginal increases to August (as at 19th), when the GIR position was $1.53 billion.



In terms of imports of goods and services, the GIR position as at 19 August translates into 3.2 months cover.

Chapter 5

5 FINANCIAL STABILITY REPORT

5.0 Introduction

Industry-wide data, for the year ended June 2005, show that the banking system as a whole continues to be well-capitalized, profitable, fairly liquid and resilient and adapting to the declining inflationary environment.

Capital levels have firmed up to meet the present required minimum of 10.0 per cent. Annual growth in Deposit Money Banks' gross credit and net credit as of end-June 2005 gained momentum relative to the end-March 2005 position, reaching 29.1 per cent and 33.0 per cent respectively.

Non-Performing Loans (NPLs) continued on a downward trend, with the share in banks' portfolio of gross loans declining from 18.5 per cent in June 2004 to 13.3 per cent in June 2005. NPLs net of provisions to capital declined from 9.4 per cent at the end of the first quarter to 2.1 per cent by the end of the second quarter of 2005, a marked contrast to the high of 16.8 per cent recorded in June 2001.

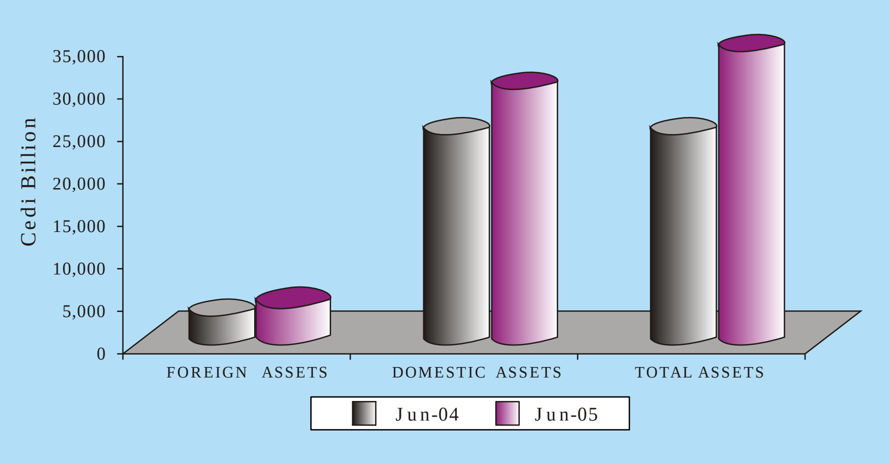
The Non-Bank Financial Intermediaries sector registered strong asset growth of 33.2 per cent for the year ended June 2005. The sector also recorded an improvement in their liquidity position for the same period.

5.1 Portfolio Growth

Growth in total Deposit Money Banks' assets experienced some deceleration, registering a year-on-year and year-to-date growth of 22.3 per cent and 8.1 per cent respectively as of end-June 2005. This represents 35.0 per cent of GDP and may be compared with 38 per cent year-on-year growth for the same period in 2004.

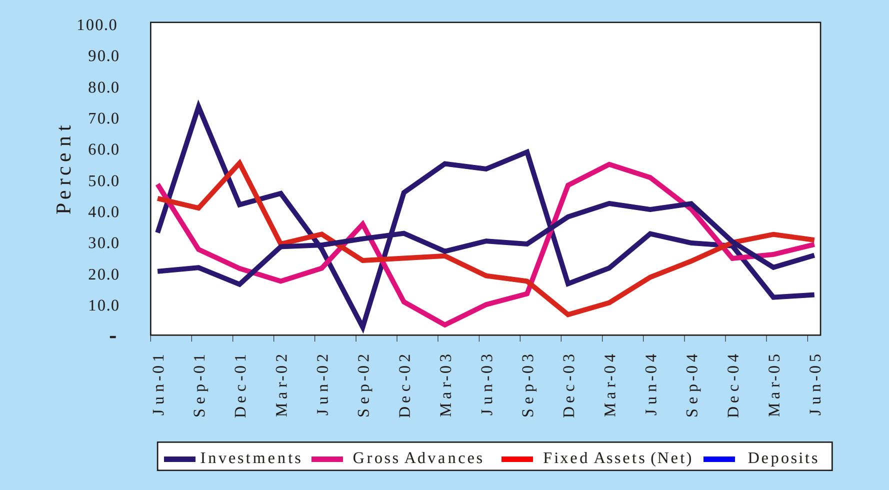
Foreign currency-denominated and domestic assets recorded an annual growth of 35.8 per cent and 20.4 per cent respectively by end-June 2005. However, the proportion of foreign assets in total assets remained low at 13.2 per cent as of end-June 2005 (11.8 per cent at end-June 2004). See chart below.

Chart 50: FOREX-DOMESTIC COMPONENTS OF TOTAL ASSETS



Annual growth in total credit as of end-June 2005 stood at 29.1 per cent, much higher than its level of 25.9 per cent as of end-March 2005, and lower than same period in 2004(50.5 per cent). Similarly, net total credit recorded year-to-date and year-on-year annual growth of 16.5 and 33.0 per cent respectively.

Chart 51: Annual Growth Rates

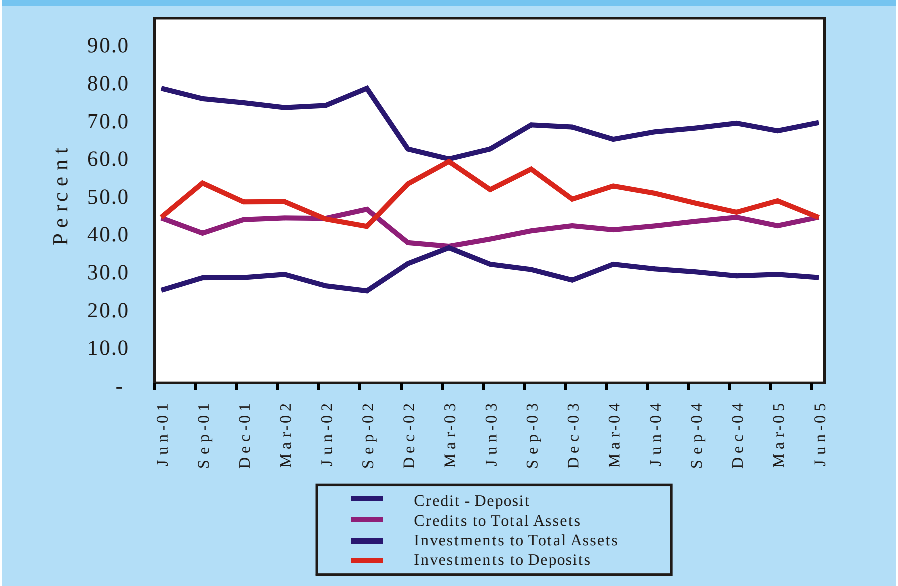


Investments, on the other hand, witnessed a slow down in annual growth, posting a growth of 12.9 per cent by end-June 2005 compared with 32.5 per cent same period in 2004. Credit growth exceeded that of investments with the gap between the two growth rates continuing to widen after it closed in December 2004. Similarly, the gap between growth in deposits and credit widened after it closed in March 2005. There was also a slowdown in the growth of fixed assets during the quarter. Refer to chart below.

5.1.1 Portfolio Allocation

Credit to total assets ratio surged as of end-June 2005 relative to its end-March 2005 position. This may be compared to that of investments, which witnessed a marginal decline. Similarly, Credit to deposit ratio surged by end-June 2005, whilst investment to deposit dipped, implying banks allocated more deposit funds to credit than to investments.

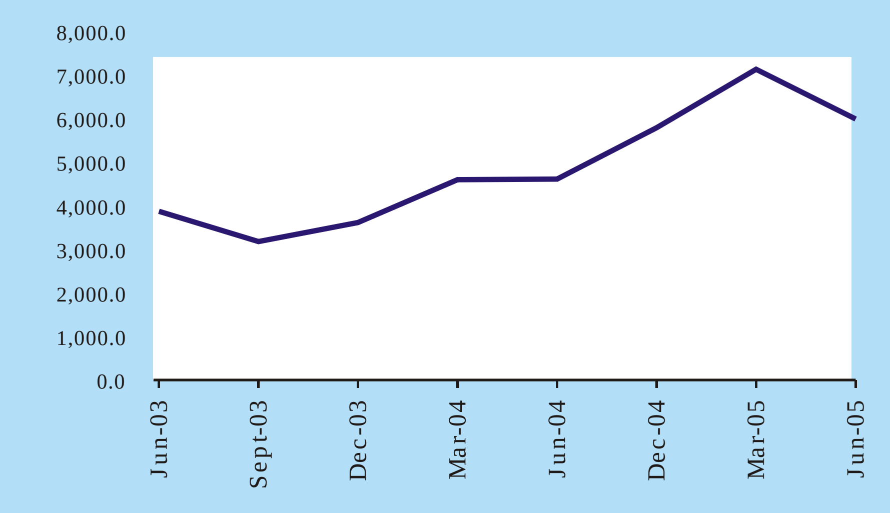
Chart 52: Portfolio Allocation



5.2 Contingent Liabilities

Contingent liabilities of the banking system (off-balance sheet liabilities of banks which include guarantees and indemnities), surged early in the year, reaching ¢7,124.2 billion in April 2005, from ¢5,783.8 billion in December 2004, but have since declined to ¢5,985.3 billion in June 2005. Year-on-year it recorded a growth of 29.97 per cent.

Chart 53: Contingent Liabilities



5.3 Credit Developments

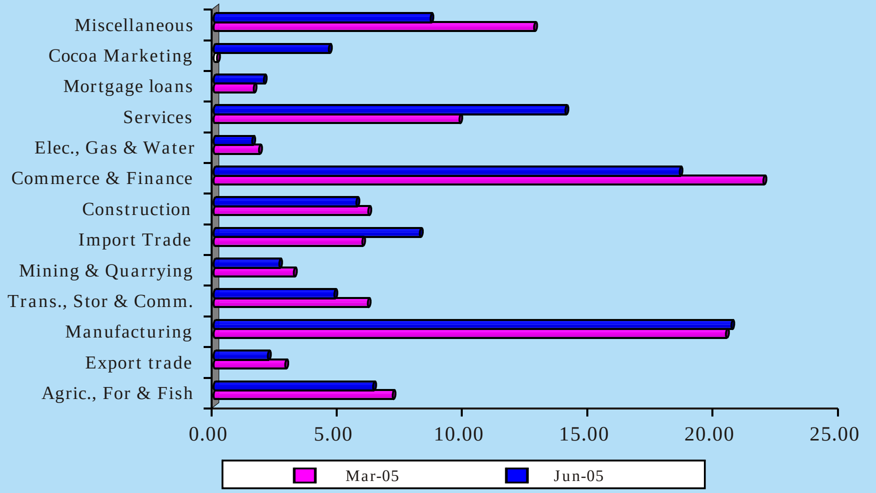
Total credit by end-June 2005 stood at ¢14,869.3 billion, recording a year-on-year growth of 29.1 per cent (¢11,517.0 billion as of end-June 2004).

5.3.1 Sectoral Allocation of Credit

The Manufacturing sector received the largest share (20.7 per cent) of total outstanding industry credit. The Commerce and Finance sector followed with 18.6 per cent, a dip relative to the end-March 2005 position of 21.9 per cent. This is followed by the Services sector which witnessed substantial growth from 9.8 per cent by end-March 2005 to 14.0 per cent by end-June 2005.

Sectors receiving the lowest credit include export trade, mining, utilities and mortgage with 2.2 per cent, 2.6 per cent, 1.5 and 2.0 per cent respectively. Credit to Cocoa Marketing surged significantly from 0.14 per cent by end-March 2005 to 4.6 per cent as of end-June 2005.

Chart 54: Sectoral Allocation of Credit

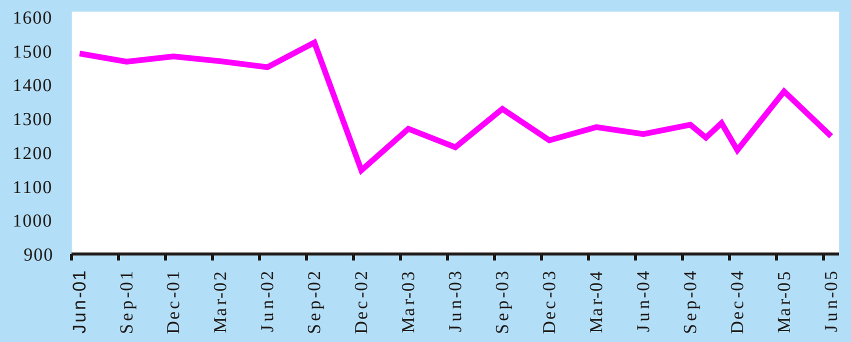


5.3.2 Credit Concentration

Credit concentration within the banking industry declined. However, the Manufacturing and Commerce & Finance sectors, maintained their dominance in the share of total credit. The Miscellaneous component also recorded a decline whilst the Services sector witnessed a marginal increase.

The Herfindahl Index, a measure of credit concentration, indicates that credit concentration remains moderately high with a value of 1,247.0 as of end-June 2005, (lying between 1,000 and 1,800), although this constitutes a decline when compared with 1,380.0 at end-March 2005.

Chart 55: Herfindahl Index



5.4 Loan Portfolio Quality

Loan portfolio quality of the overall banking system has seen a significant improvement since end-December 2003, trending downwards. The ratio of non-performing loans (NPL) has exhibited a significant decline from 18.5 per cent at end-June 2004 to 13.3 per cent as of end-June 2005.

The NPL net of provisions to capital shows the potential impact of NPL on capital. The ratio declined from 9.4 per cent at the end of the first quarter to 2.1 per cent by the end of the second quarter of 2005, a marked contrast to the high of 16.8 per cent recorded in June 2001. This implies that banks are increasingly building up sufficient cushion to absorb NPL-related losses.

Chart 56: Non-Performing Loan Ratio

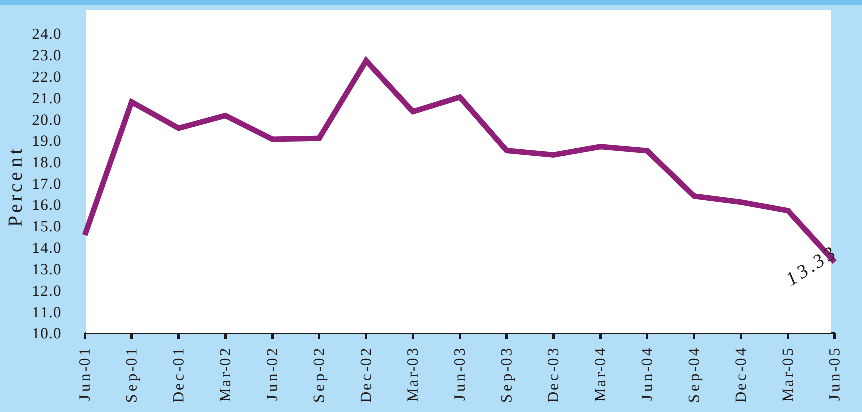
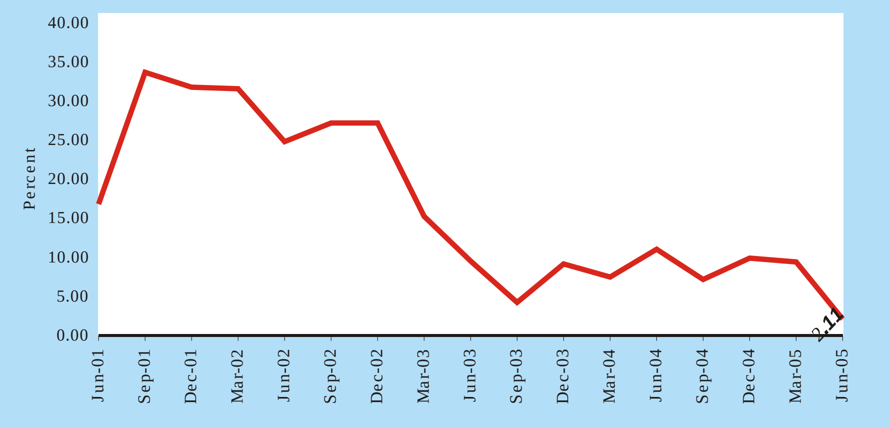


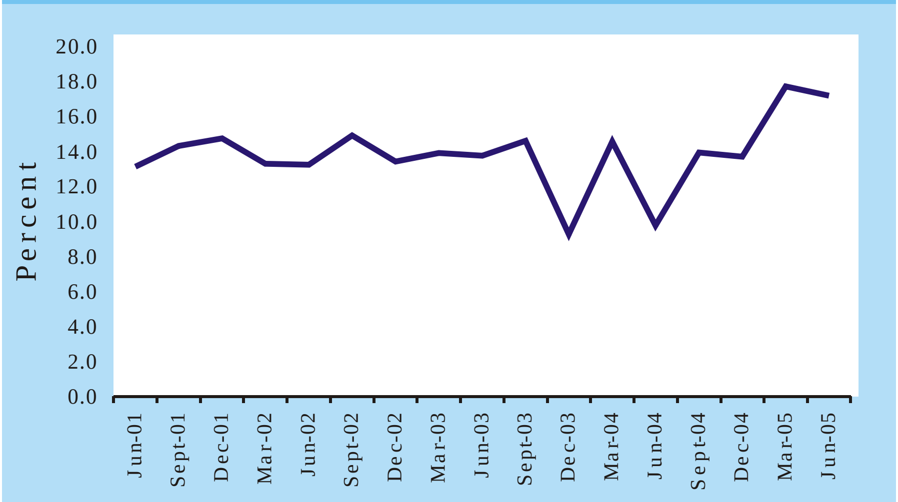
Chart 57: NPL net of Provisions/Capital



5.5 Capital Adequacy

The industry CAR depicted in the chart below shows a marginal decline from the end-March 2005 position of 17.7 per cent to 17.2 per cent as of end-June 2005. All the banks met the statutory capital adequacy ratio of 10.0 per cent.

Chart 58: Capital Adequacy



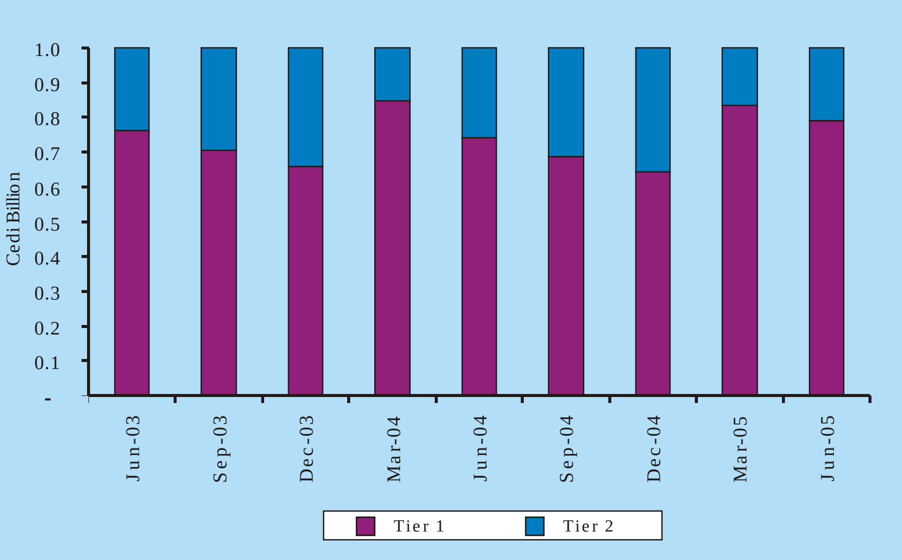
5.6 Solvency

Most banks are well-capitalized and profitable. The Tier 1 capital ratio of Ghanaian banks remained within a 'well-capitalized' category.

5.6.1 Regulatory Capital

The published aggregate Tier 1 capital ratio of the banking system declined from 83.5 per cent at end-March 2005 to 79.1 per cent at end-June 2005. Total Capital however increased by 5.4 per cent to ¢4,246.0 billion at end-June 2005.

Chart 59: Components of Regulatory Capital



5.6.2 Liquidity

The Banking sector remains generally liquid and within prudential limits. Liquidity ratios remained very high though this marginally declined as of end-June 2005.

5.6.3 Liquidity Reserves

At the industry level, banks are generally compliant with the 9.0 per cent minimum primary reserve requirement. With the onset of the new monetary framework, especially the relaxed reserve requirements (RR), banks' liquidity have generally improved. All banks are now compliant with the new RR.

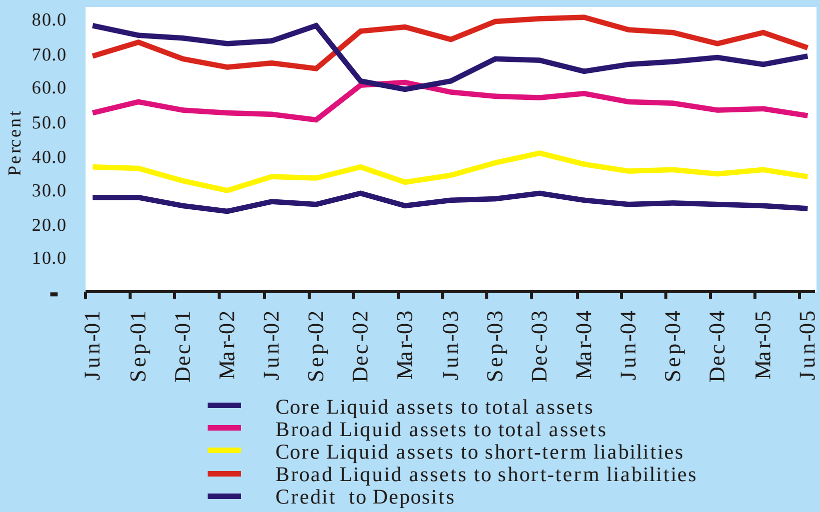
Table 19 indicates that banks' surplus reserves have more that doubled between the end of Jun-05 and mid-August 2005.

Table 19: Movements in Banks' Reserves: 29/6/2005-17/8/2005			
	6/29/2005	8/17/2005	CHANGES
PRIMARY SURPLUS, ¢bn	381.3	431.3	49.9
SECONDARY RESERVES, ¢bn	2,949.6	6,470.6	3,521.0
TOTAL, ¢bn	3,330.9	6,901.8	3,570.9
CREDIT/DEPOSIT RATIO, %	71.3	71.8	0.5
TOTAL CREDIT PORTFOLIO, %	14,067.1	14,523.2	456.1

5.6.4 Liquidity Ratios

Liquidity ratios, shown in chart 59, shows a marginal decline though remaining generally high.

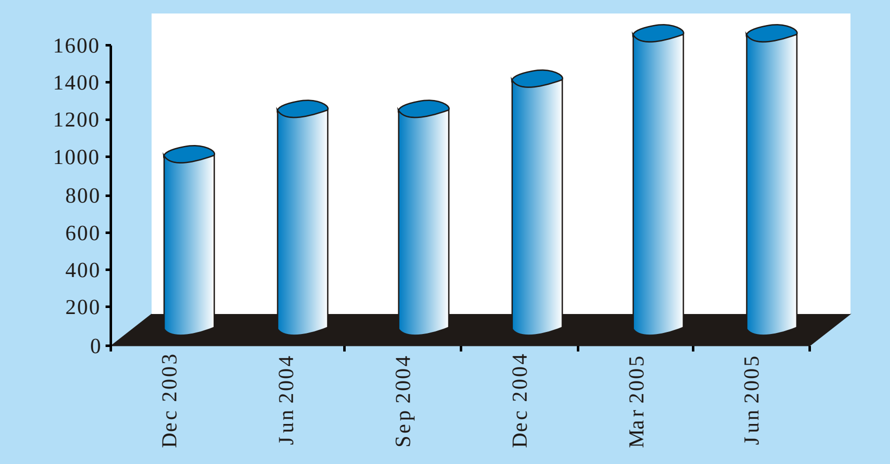
Chart 60: Liquidity Ratios



5.7 Non-Bank Financial Institutions (NBFIs) Sector

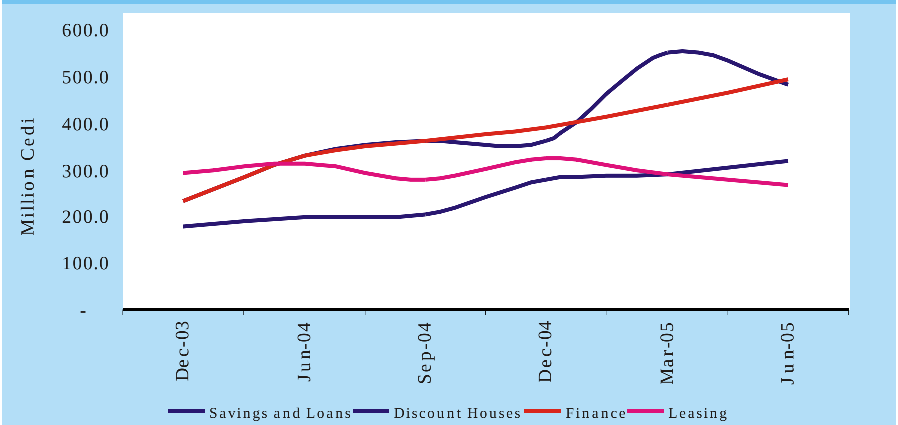
At end-June 2005, total assets of NBFIs amounted to ¢1,842.0 billion whilst total liabilities stood at ¢1,529.0 billion. This situation is a continuation of the gentle increase in both positions since December 2003. Adjusting for Fixed and Other assets, asset behaviour of the NBFI sector reveals a similar upward trend since December 2003, with 33.2 per cent year-on-year growth in earning assets as of end-June 2005.

Chart 61: Earning Assets of NBFIs in ¢'billion



All sub-sectors contributed to this generally upward trend in earning assets, except the leasing companies, which reveal a relatively flat performance.

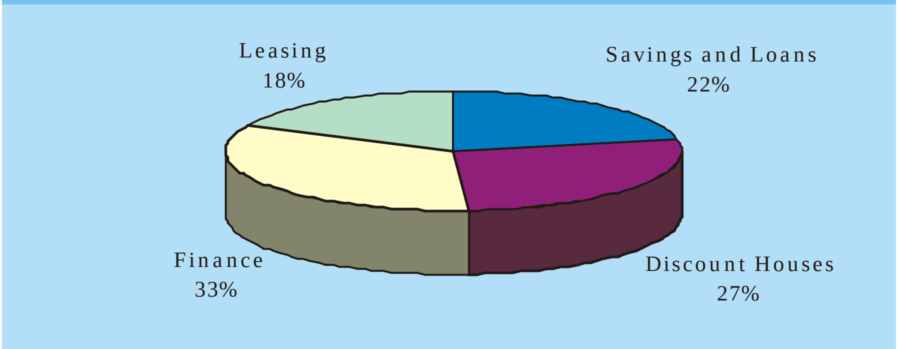
Chart 62: Earning Assets of NBFI SubGroups



5.7.1 Share of NBFI Assets

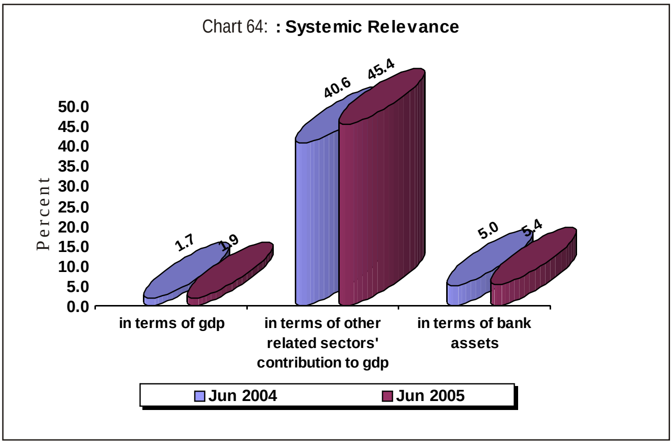
Finance Houses and Discount houses maintained their dominance in terms of the distribution of assets, recording 33.0 per cent and 27.0 per cent share respectively of overall assets of NBFIs as at end-June 2005. The Savings & Loans Companies and Leasing Companies recorded 22.0 per cent and 18.0 per cent respectively.

Chart 63: Asset Shares of NBFIs-June 2005



5.7.2 Systemic Relevance of NBFIs

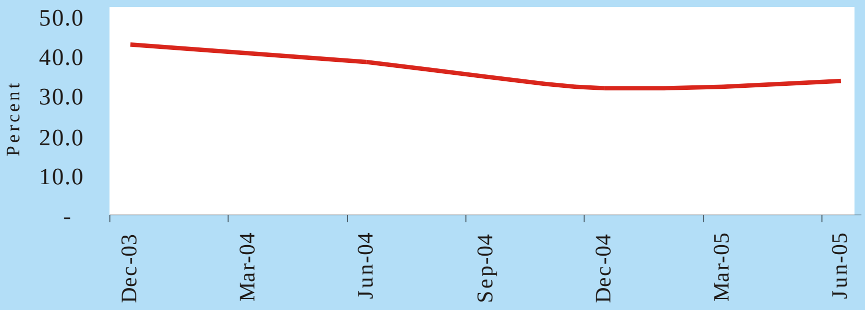
At end-June 2005, all measures of systemic relevance of the NBFI sector showed appreciable increases over the end-June 2004 period. The most significant increase was in the relevance of NBFIs in terms of other related sectors' (finance, insurance and other businesses) contribution to GDP, which had an increase of 11.8 per cent (from 40.6 to 45.4 per cent) over the end-June 2004 position.



5.7.3 Liquidity of NBFIs

The gradual dip in liquidity of the NBFI sector since December 2003 saw a recovery at end-June 2005. The end-June 2005 position of 33.8 per cent compares with 32.1 per cent at end-December 2004.

Chart 65: Short-term Asset Ratio of the NBFI sector



5.8 Conclusions

The banking sector has adjusted fairly well to the new monetary policy framework, with all banks now in compliance with both primary and secondary reserve requirements.

The credit portfolio quality of the banking industry has recorded some improvement, with a decline in the NPL ratio to 13.3 per cent from 15.7 per cent in March 2005. However, credit quality problems remain for some banks, with under-provisioning for delinquent loans and an increase in loss category loans.

The banking industry's Capital Adequacy Ratio also remains strong at 17.2 per cent although a marginal dip from the 17.7 per cent recorded in March 2005.

Year-on-year growth in earning assets of NBFIs was 33.2 per cent as of end-June 2005. This was a reflection of increases in earning assets of all subgroups. At end-June 2005, all measures of systemic relevance of the NBFI sector show appreciable increases over the end-June 2004 position.

The gradual dip in liquidity of the NBFI sector since December 2003 saw a recovery at end-June 2005. The end-June position of 33.8 per cent compares with 32.1 per cent at end-December 2004.

The developments in the banking sector and non-bank financial intermediaries show a generally resilient financial system.

List of charts

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