BANK OF GHANA
DOCUMENT FOR BOARD AGENDA

HALF YEAR ECONOMIC REVIEW AND OUTLOOK (JUNE, 2005)

(PREPARED BY THE RESEARCH DEPARTMENT)

JULY 25, 2005

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EXECUTIVE SUMMARY

General Overview
Macroeconomic developments in the first half of 2005 were satisfactory. Indicators of economic activity show increased real sector activity. Consumer Price inflation declined to 15.7 per cent after peaking at 16.7 per cent in March. Fiscal revenue mobilisation exceeded the programme target, but shortfalls in loan inflows caused net domestic financing to exceed its target. Monetary aggregates continued on a downward growth path. High international prices for crude oil continued to remain a source of downside risk to the economy.

Real Sector Developments
Revenue collection by economic classification and social security contributions suggest increased economic and employment activity in the first half of 2005. The year to date real growth rate of revenue collection was 3.9 per cent while social security contributions increased by 7.6 per cent in real terms.

Fiscal Developments
During the first half-year, domestic revenue mobilisation of ¢11,038.9 billion exceeded projection by 9.7 per cent. Total payments also exceeded projections by 8.8 per cent. The budget for the half-year therefore resulted in a deficit of ¢62.6 billion and a domestic primary surplus of ¢188.7 billion (0.2 per cent of GDP). Significant shortfalls in external inflows led to a net domestic financing of the budget of ¢1,224.3 billion (1.3% of GDP).

Monetary Developments
Year-on-year reserve money growth at end-June 2005 was 15.7 per cent showing a significant decine from 18.5 per cent at the end of December 2004. Broad Money (M2+) also declined from 25.9 per cent at the end of 2004 to 23.6 per cent as at May 2005.

Price Developments
Year-on-year consumer price inflation declined during the second quarter after rising in the first quarter following the petroleum price adjustment in February. The decline in CPI inflation to 15.7 per cent in June was driven by declines in both food and non-food inflation rates. Core measures of inflation also showed a decline in the rate of inflation at the end of June.

Capital Market Developments
The GSE index continued on a downward trend during the entire first half of the year. Activity on the stock market in the half-year was subdued. The volumes of trade were low in the face of falling prices. The All-Share Index shed 13.8 per cent over the period while market capitalisation declined by 3.1 per cent.

External Sector Developments
The overall balance of payments recorded a deficit of US$285.3 million in the first half of 2005 mainly due to rising oil prices and declining commodity prices. Gross international reserves as at June 2005 stood at US$1,469.06 million, representing

2.7 months of import cover. Government debt service due for the period January-June 2005 amounted to US$231.88million of which principal was US$168.53 million and interest was US$63.35 million.

During the review period, Ghana as well as 17 other HIPC countries, was declared by the G-8 countries as being eligible to receive 100 per cent debt relief from multilateral creditors. Ghana's outstanding debt obligations to the multilateral creditors at end-June 2005 is estimated at US$5,153.20 million, and represents 81.7 per cent of the country's total external debt.

A. REAL SECTOR DEVELOPMENTS

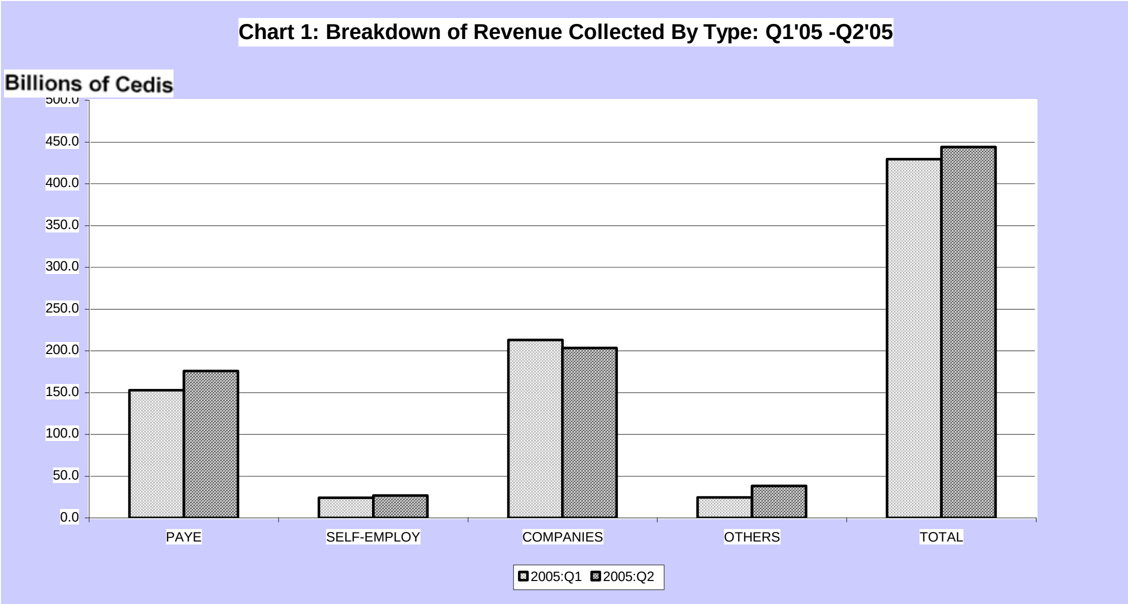
Developments within the first half of the year indicate that aggregated revenue adjusted for price changes went up slightly by 0.3 per cent to ¢444.1 billion in the second quarter of 2005 compared to the first quarter. This was driven mainly by increases recorded in the first quarter under personal income taxes (Pay-As You-Earned), which went up by 7.7 per cent, taxes from Self-Employed (3.4 per cent) and others (46.9 per cent). On the contrary, corporate taxes declined by 10.7 per cent (Table 1 & Chart 1).

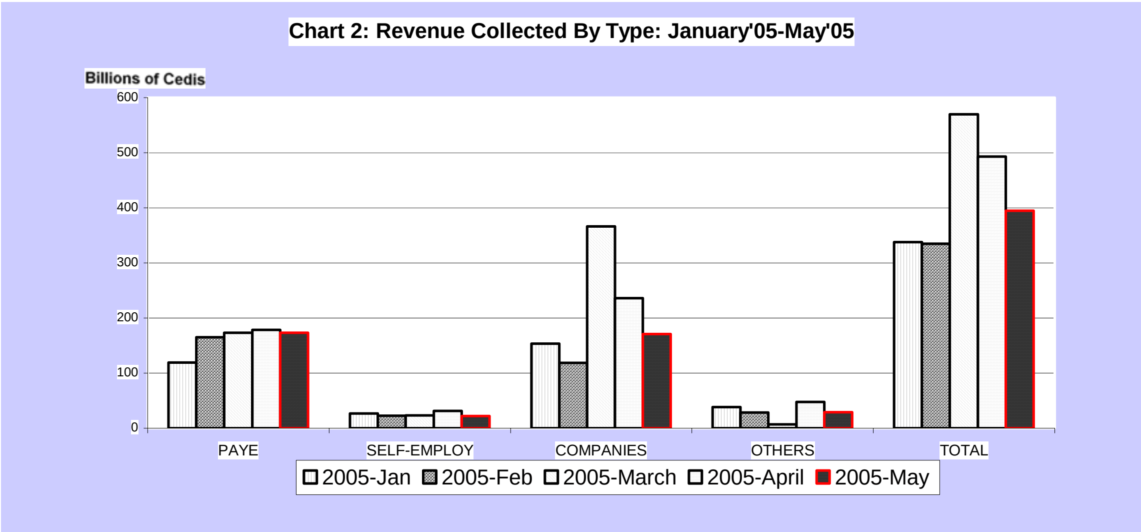
Table 1: Aggregated Revenue Collections by Type

	Actual		Growth Rate 2005:2Q	
	2005:Q1	2005:Q2	Nominal	Real
PAYE	152.7	175.8	15.1	7.7
Self-Employed	24.1	26.7	10.6	3.4
Companies	213.0	203.3	-4.5	-10.7
Others	24.4	38.3	57.0	46.9
Grand Total	429.4	444.05	3.4	0.3

Data Source: Revenue Agency Board (revised data)

The trend in the second quarter was similar to that of the first quarter but with two notable developments. Personal income, Self Employed and Others recorded a relatively higher growth than in the first quarter (39.9, 6.0 and 8.6 per cent respectively). Secondly, the declining trend in corporate taxes reversed with a 45.8 percent increase over the first quarter. These indicators suggest that the Ghanaian economy picked up fairly in the first half of the year under review.





Social Security Measure

Developments in social security contributions for the first half of the year showed an upward trend with about 7.6 percent increase for the period (an increase from ¢152.0 billion in January to ¢183 billion at the end of May 2005). Developments within the period under review showed that cumulative value of workers contributions to SSNIT was ¢288.7 billion in February but increased significantly by about 81.3 percent (46.6 percent in real terms) in March 2005.

Table2: Breakdown of Employees Contributions to SSNIT

	Actual		**Growth Rate 2005:2Q**	
	2005:Q1	**2005:Q2**	**Nominal**	**Real**
Govt via A/C Gen	55.2	64.4	16.6	8.9
Govt Sub. Org	8.4	11.9	40.1	30.9
All Other Sources	83.1	92.4	11.1	3.8
Grand Total	146.9	168.7	14.9	7.3

Data Source: SSNIT

On quarterly basis, there was a 7.3 per cent growth after adjusting for price changes in the second quarter of 2005 compared with developments in the first quarter. This developments typifies the normal first quarter slowdown in economic activities.

All the sub components of social security contributions recorded significant increase over the period under consideration, with second quarter changes higher than those recorded for the first quarter. These increases in workers contribution were mainly driven by increases in number of contributors, an indication of increase in economic activity, and a measure of modest growth in real economic activity in the first half of the year (Table 2 & chart 3).

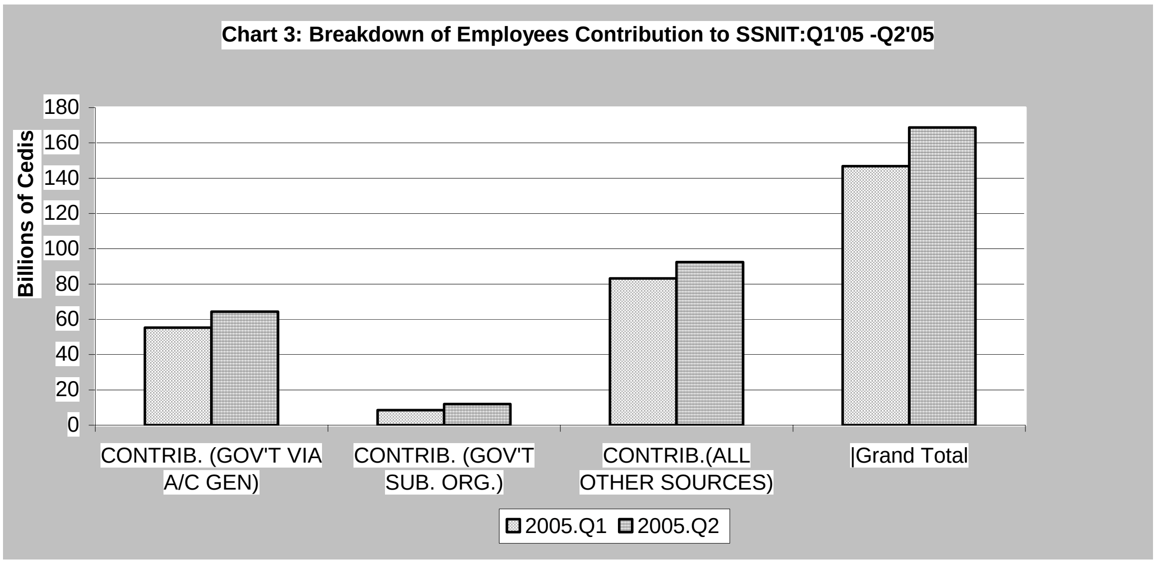
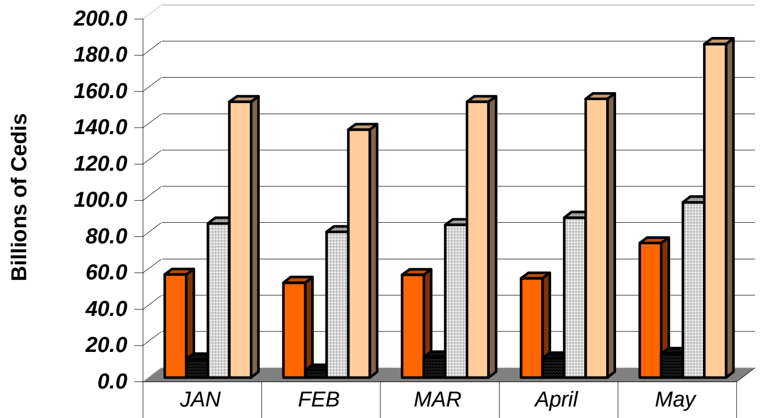


Chart 4: Breakdown of Employees Contributions to SSNIT: Jan'05 -May'05



	JAN	FEB	MAR	April	May
CONTRIB. (GOV'T VIA A/C GEN)	56.8	52.3	56.6	54.7	74.1
CONTRIB. (GOV'T SUB. ORG.)	10.2	4.0	11.2	10.7	13.1
CONTRIB.(ALL OTHER SOURCES)	85.0	80.3	84.2	88.2	96.7
Grand Total	152.0	136.7	152.0	153.6	183.9

Bank of Ghana Composite Index

The Bank of Ghana's Composite Index of economic activity, which measures real sector activities including output of selected key enterprises, industrial electricity consumption, domestic VAT, port activity, imports, exports and employment contributions, indicates that real economic activities picked up in the first half of 2005 fiscal year as shown by the upward trending in chart 4.

On the other hand, the quarter-on-quarter Bank of Ghana Economic Composite Index growth rate also shows that the Ghanaian economy picked up slightly in the second quarter registering about 4.44 per cent growth (chart 5). The growth in the index corroborates the trend shown by SSNIT contributions and revenue collections by type, an indication of a consolidated modest real sector growth over the first half of the year.

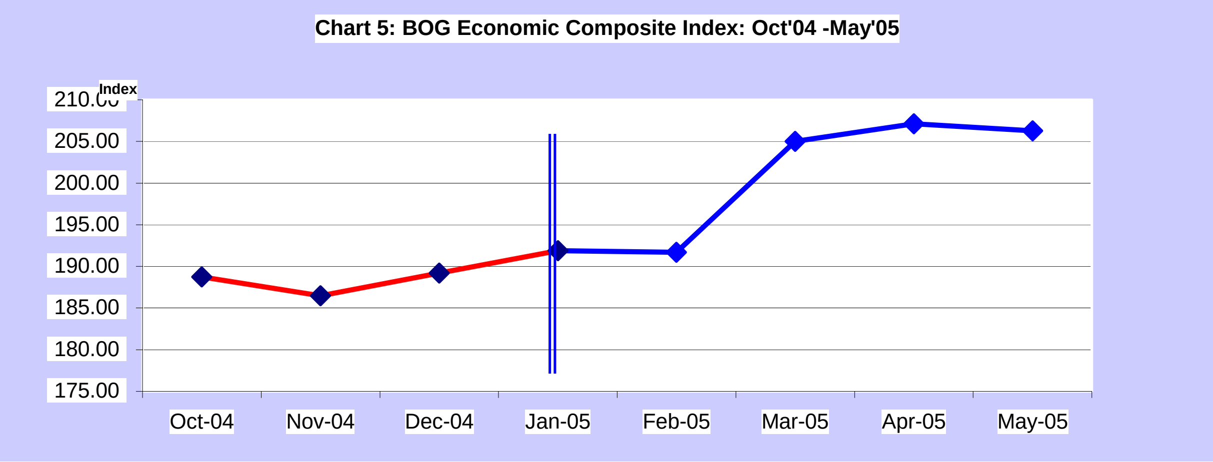


Chart 5: BOG Economic Composite Index: Oct'04 -May'05
Index
210.00
205.00
200.00
195.00
190.00
185.00
180.00
175.00
Oct-04
Nov-04
Dec-04
Jan-05
Feb-05
Mar-05
Apr-05
May-05

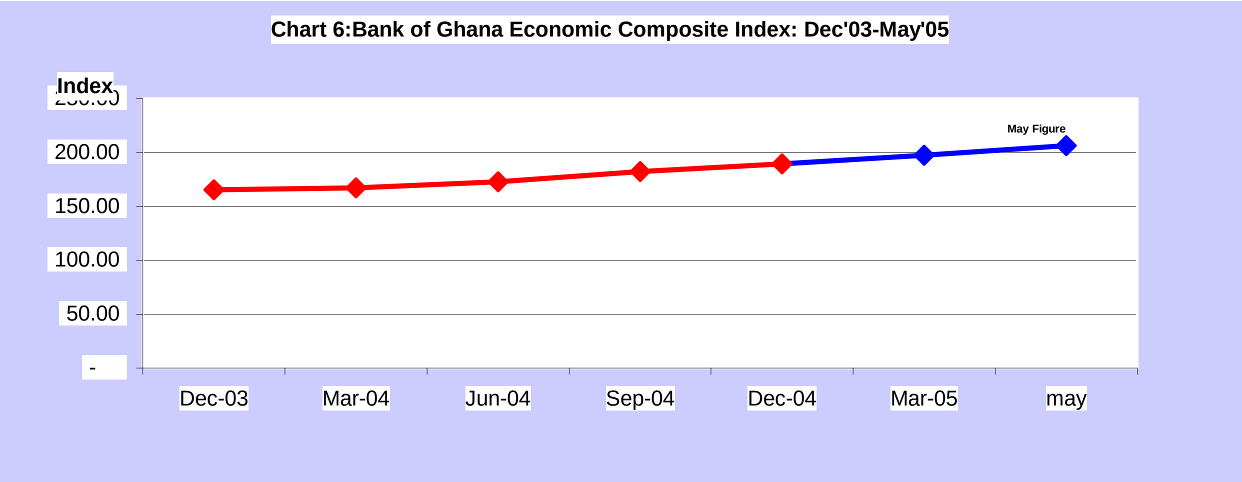


Chart 6:Bank of Ghana Economic Composite Index: Dec'03-May'05
Index
200.00
150.00
100.00
50.00
-
May Figure
Dec-03
Mar-04
Jun-04
Sep-04
Dec-04
Mar-05
may

B. FISCAL DEVELOPMENTS

Fiscal effort for the first half of year 2005 showed significant improvement in revenue mobilization, especially from domestic sources. Domestic revenue mobilized was ¢11,038.9 billion, 9.9 per cent higher than the projection and represented 11.5 per cent of GDP compared with a 20.6 per cent projection for the year. This performance is against the backdrop of reduced corporate and personal income taxes, downward revision in the various categories of the National Reconstruction Levy and the absence of new tax measures.

Efficiency in tax administration explains the improvement in tax collections. This reflected in a Tax/GDP ratio of 9.5 per cent consistent with the 9.7 per cent recorded for the similar period in 2004. Total collections in respect of NHIL were 0.54 per cent of GDP.

There was however, a significant shortfall in projected external inflows due mainly to delays in the completion of the Third Review Under Ghana's Poverty and Growth Arrangement with the IMF. Consequently, government had to rely on domestic sector borrowing to fill the resource gap created by the non-disbursement of foreign inflows. The half year ended with a net domestic borrowing of ¢1,224.3 billion (1.3% of GDP) instead of a projected net repayment of ¢237.0 billion.

The recorded domestic primary balance for the half year was a surplus of 0.17 per cent of GDP, significantly lower than the 1.7 per cent of GDP projected. Looking ahead, the attainment of the end-year performance target of 2.4 per cent would require rationalisation of non-interest expenditures.

Table 3: FISCAL INDICATORS[1] (Billion of Cedis)

	Q1	Apr-04	May-04	Jan - May 2004	Q1	Apr-05	May-05	Jan - May 2005
Primary Bal	(91.61)	(61.68)	312.91	216.85	1,024.80	73.40	195.10	1,293.30
% of GDP	(0.13)	(0.09)	0.43	0.30	1.23	0.09	0.23	1.50
Overall Bal	(90.61)	14.12	(28.49)	(1,710.35)	(986.70)	(5.67)	(182.00)	(1,174.37)
% of GDP	(0.13)	0.02	(0.04)	(2.37)	(1.18)	(0.01)	(0.21)	(1.36)
Recc Exp	3,267.53	998.23	1,234.72	3,999.28	3,239.90	1,252.90	1,387.70	5,880.50
% of GDP	4.68	1.41	1.71	5.54	3.88	1.48	1.61	6.81
Capital Exp	1,729.59	449.16	456.60	1,945.88	1,843.80	583.80	560.30	2,987.90
% of GDP	2.48	0.63	0.63	2.70	2.21	0.69	0.65	3.46
Grants	1,076.02	555.71	265.26	978.08	304.60	385.60	80.90	771.10
% of GDP	1.54	0.78	0.37	1.36	0.36	0.45	0.09	0.89
Revenue & Grants	4,637.53	1,968.58	1,937.82	5,700.23	5,225.10	2,355.70	1,753.30	9,334.10
% of GDP	6.64	2.77	2.69	7.90	6.25	2.77	2.03	10.82
Tax	3,478.55	1,339.46	1,482.40	4,550.18	4,379.60	1,911.30	1,560.20	7,851.10
% of GDP	4.98	1.89	2.06	6.31	5.24	2.25	1.81	9.10
Stock of Debt	12,302.35	12,356.67	12,449.51	12,449.51	13,427.57	13,775.25	14,312.93	14,312.93
% of GDP	17.61	17.40	17.26	17.26	16.06	16.22	16.58	16.58
GDP	69,873.36	71,018.22	72,131.46	72,131.46	83,607.82	84,942.29	86,304.24	86,304.24

[1] Revenue figures for the current year are total receipts as in the narrow budget.
There are some tax elements in other receipts which are not captured here.
[2] The Stock of Domestic Debt excludes revaluation stock.

Receipts

Revenue mobilization during Jan - June 2005 was robust, yielding receipts that exceeded the programme target by 2.1 per cent.

Receipts for June was ¢2,396.3 billion bringing total receipts for the first half year to ¢12,275.6 billion, which was in excess of programme target of ¢12,025.9 billion. Of the total receipts, ¢9,458.60 billion (78.9%) was from tax sources (including NHIL collected by CEPS) and ¢2,838.4 billion (23.1%) was from non-tax sources.

Table 4: Receipts: January – June 2005 (Billion of Cedis)

	2004	2004	2005	2005	2005	2005	2005
CATEGORY	**JAN - JUNE OUTTURN**	**JAN - JUNE ESTIMATES**	**JUNE OUTTURN**	**Q2 OUTTURN**	**Q2 ESTIMATES**	**JAN - JUNE OUTTURN**	**JAN - JUNE ESTIMATES**
RECEIPTS	**9,734.8**	**9,006.2**	**2,396.6**	**6,784.3**	**6,183.5**	**12,275.6**	**12,025.9**
Tax Revenue	**7,770.7**	**6,703.0**	**1,565.7**	**4,907.1**	**4,906.6**	**9,109.4**	**9,304.8**
CEPS	4,257.1	3,382.0	898.4	2,601.7	2,723.8	4,902.3	5,221.1
IRS	2,220.0	2,035.2	437.2	1,549.4	1,339.4	2,759.0	2,517.1
VAT	918.4	949.9	230.1	665.6	644.4	1,267.4	1,282.0
Cocoa Duty	375.2	336.0	0.0	90.3	199.0	180.7	284.7
Non-Tax Receipts	**1,964.0**	**1,530.7**	**771.8**	**1,609.1**	**963.6**	**2,644.2**	**2,119.1**
Non-Tax Revenue	412.5	435.2	108.8	186.6	365.9	328.6	739.6
Grants	610.1	414.3	221.7	335.6	210.5	406.3	605.2
HIPC Assistance	813.7	477.3	441.3	603.0	290.2	830.4	580.4
Divestiture	0.0	204.0	0.0	0.0	97.0	0.0	194.0
Others	127.8	0.0	0.0	484.0	0.0	1,078.9	0.0
Other Revenue Measures	**0.0**	**772.5**	**59.1**	**268.0**	**313.3**	**521.9**	**602.0**
National Health Insurance Levy		0.0	59.1	268.0		521.9	
Petroleum Recovery Levy		642.2					
National Reconstruction Levy		81.8					
Timber Licence		48.5					
Domestic Revenue	**8,311.0**	**7,910.7**	**1,733.7**	**5,845.7**	**5,272.5**	**11,038.9**	**10,044.4**

For the first half of the year CEPS Collections amounted to ¢4,902.3 billion, made up of Import duties and VAT of ¢3,150.4 billion, Petroleum taxes of ¢1,737.5 billion, and 10 per cent levy on Lumber of ¢14.4 billion. Direct taxes collected by IRS was ¢2,759.0 billion, domestic VAT amounted to ¢1,267.4 billion while export duty on cocoa amounted to ¢180.7 million. Whereas CEPS and IRS exceeded their respective programme targets by 0.2 per cent and 20.4 per cent, that of VAT and cocoa duty fell short of their targets by 1.1 per cent and 36.5 per cent respectively.
Receipts from programmed grants, HIPC sources and other sources were ¢406.3 billion, ¢830.4 billion and ¢1,078.9 billion respectively. There were no divestiture receipts during the half year.

Apart from HIPC Assistance which exceeded the target by ¢250.0 billion (43.1%), the other Non-tax sources- Grants, Divestiture, other revenue and non tax revenue fell short of their respective programmed targets by ¢198.9 billion (32.3%), ¢194.0 billion (100%), ¢80.1 billion (13.3%) and ¢411.0 billion (55.6%).

Payments

Total payments for the half year exceeded the programme target by 8.83 per cent with the major components being Wages, Salaries and Pensions, MDA drawings and Petroleum expenditures.

Total payments amounted to ¢12,338.2 billion (12.8% of GDP) compared to the programme target of ¢11,361.5 billion (11.8% of GDP).

Interest payments (Domestic and External) of ¢1,488.0 billion was below the programme target of ¢2,365.2 billion by 37.1 per cent. Non-interest payments of ¢10,850.2 billion was however 24 per cent above the programme target.

Table 5: Payments: January – June 2005 (Billion of Cedis)

	2004	2004	2005	2005	2005	2005	2005
CATEGORY	**JAN - JUNE OUTTURN**	**JAN - JUNE ESTIMATES**	**JUNE OUTTURN**	**Q2 OUTTURN**	**Q2 ESTIMATES**	**JAN - JUNE OUTTURN**	**JAN - JUNE ESTIMATES**
PAYMENTS	**10,301.3**	**9,528.3**	**2,246.0**	**6,750.0**	**5,803.9**	**12,338.2**	**11,361.5**
Statutory Payments	**6,160.5**	**5,919.6**	**1,158.9**	**3,796.6**	**4,145.0**	**6,343.6**	**7,467.5**
Interest domestic	975.5	1,277.3	165.0	446.6	1,072.1	1,072.1	1,689.5
Interest external	406.5	487.5	119.3	237.2	415.9	415.9	675.7
DACF	240.3	379.7	0.0	257.8	232.5	257.8	501.9
GET Fund	361.2	379.3	0.0	325.7	255.2	325.7	526.5
Wages & Salaries, Pensions	3,578.9	2,748.5	874.6	2,529.3	1,998.7	4,272.1	3,741.4
Social Security Payments	239.0	234.1	0.0	0.0	130.4	0.0	254.5
Road Fund	319.5	348.9	0.0	0.0	0.0	0.0	0.0
VAT Refund	39.7	64.4	0.0	0.0	40.3	0.0	78.0
Non Statutory	**4,140.8**	**3,608.8**	**1,087.1**	**2,953.4**	**1,658.9**	**5,994.6**	**3,894.1**
Road Arrears	71.4	11.0	0.0	0.0	25.0	0.0	50.0
Non-Road Arrears	94.4	56.0	0.0	0.0	59.3	0.0	118.5
HIPC Financed Expenditure	674.7	389.7	180.2	403.3	386.6	769.1	582.8
MDA Drawings	1,824.4	0.0	465.2	1,246.8	0.0	2,141.9	0.0
Petroleum Expenditure	745.1	0.0	330.0	1,062.9	191.5	1,744.3	355.0
Other Payment	730.7	3,152.0	111.6	240.4	996.6	1,339.3	2,787.8
Domestic Expenditure	**8,713.9**	**7,632.2**	**1,961.6**	**6,066.2**	**4,191.3**	**10,850.2**	**8,749.8**

The major components of non-interest payments were wages and salaries of ¢4,272.1 billion (39.3%), Ministries, Departments and Agencies (MDA) drawings of ¢2,141.9 billion (19.6%) and Petroleum expenditures of ¢1,744.3 billion (16.0%). Other components were HIPC financed expenditures of ¢769.1 billion (7.1%) and other payments of ¢1,339.3 billion (12.6%). District Assembly Common Fund payments accounted for ¢257.8 billion (2.4%) while GET Fund amounted to ¢325.7 billion (3.0%)

The expenditures of the MDAs during the first six months were as follows: Administration (¢697.4 billion), Economic (¢94.1 billion), Infrastructure (¢195.1billion), Social Services (¢337.1 billion), Public Safety (¢487.9 billion), Contingency Vote (¢175.0 billion) and Utility Vote (¢153.8 billion).

Financing

Government transactions for the first half of the year resulted in a narrow budget deficit of ¢462.6 billion. This together with Net Foreign loan repayments of ¢996.4 billion and Net disavings due to inflation index bonds of ¢165.3 billion resulted in a Net Domestic Financing (NDF) of ¢1,224.3 billion compared with a programme Net domestic repayment of ¢237.0 billion.

The non-achievement of this NDF target could be mostly attributed to non- receipt of foreign loans, grants and exceptional financing.

Table 6: Financing: January – June 2005 (Billion of Cedis)

CATEGORY	2004 JAN - JUNE OUTTURN	2004 JAN - JUNE ESTIMATES	2005 JUNE OUTTURN	2005 Q2 OUTTURN	2005 Q2 ESTIMATES	2005 JAN - JUNE OUTTURN	2005 JAN - JUNE ESTIMATES
REVENUE	**9,734.8**	**9,006.2**	**2,396.6**	**6,784.3**	**6,183.5**	**12,275.6**	**12,025.9**
PAYMENTS	**10,301.3**	**9,528.3**	**2,246.0**	**6,750.0**	**5,803.9**	**12,338.2**	**11,361.5**
BALANCE	**(566.5)**	**(522.1)**	**150.6**	**34.3**	**379.6**	**(62.6)**	**664.4**
FINANCING	**566.5**	**522.1**	**(150.6)**	**(34.3)**	**(379.6)**	**62.6**	**(664.4)**
DOMESTIC NET	**1,429.3**	**538.1**	**312.8**	**695.0**	**(117.9)**	**1,224.3**	**(237.3)**
Banking	1,604.3		220.1	429.4		955.4	
Bank of Ghana	631.2		(187.6)	(529.0)		(496.6)	
Deposit Money Banks	973.1		407.7	958.4		1,452.0	
Non-Bank	(175.0)		92.7	265.6		268.9	
FOREIGN NET	**(862.1)**	**(122.1)**	**(463.5)**	**(729.3)**	**(277.0)**	**(996.4)**	**(272.9)**
Loan Disbursement	0.0	107.9	0.0	0.0	68.8	0.0	225.6
Exceptional Financing	0.0	1,125.9	0.0	0.0	389.8	0.0	779.6
Loan Repayment	(862.1)	(1,356.0)	(463.5)	(729.3)	(735.5)	(996.4)	(1,278.1)
Savings (+)/Dissavings (-) From GGILBs	**0.0**	**106.2**	**0.0**	**0.0**	**15.3**	**(165.3)**	**(154.2)**
Unallocable Financing	**(0.7)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
GDP AT CURRENT PRICES	**77,850.0**	**77,850.0**	**96,319.0**	**96,319.0**	**96,319.0**	**96,319.0**	**96,319.0**
DOMESTIC PRIM. BALANCE	**(402.9)**	**278.5**	**(227.9)**	**(220.5)**	**1,081.2**	**188.7**	**1,294.6**
(In Percent of GDP)	**(0.52)**	**0.36**	**(0.24)**	**(0.23)**	**1.12**	**0.20**	**1.34**
Net Domestic Financing	**1,429.3**	**538.1**	**312.8**	**695.0**	**(117.9)**	**1,224.3**	**(237.3)**

Chart 7: Tax Revenue (Jan- June 2005)

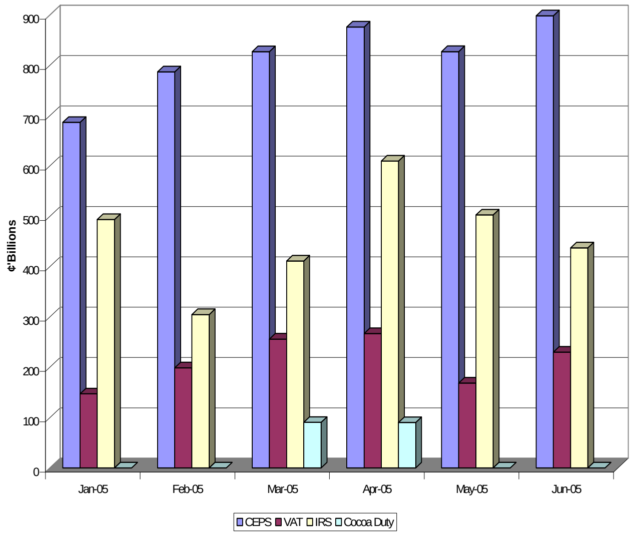


Chart 8: Non Tax Revenue (Jan – June 2005)

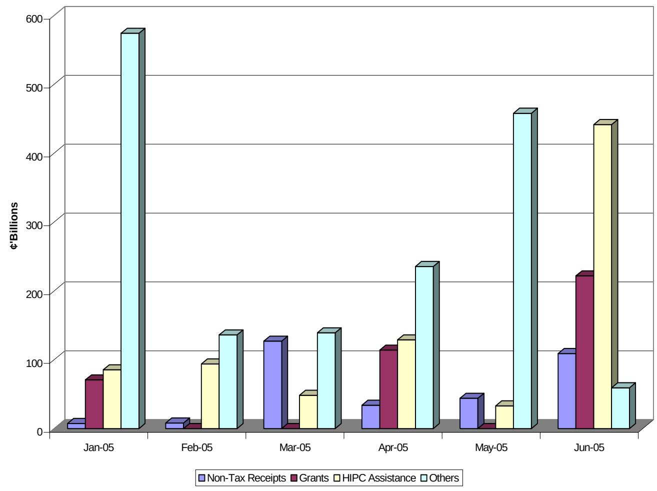


Chart 9: Statutory Payments

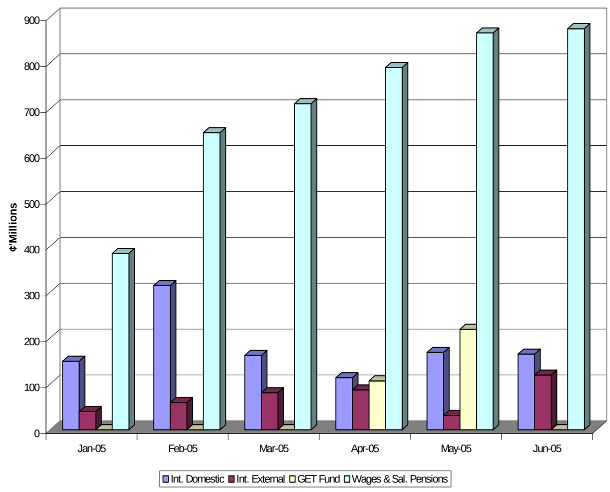


Chart 10: Non Statutory Payments (Jan- June 2005)

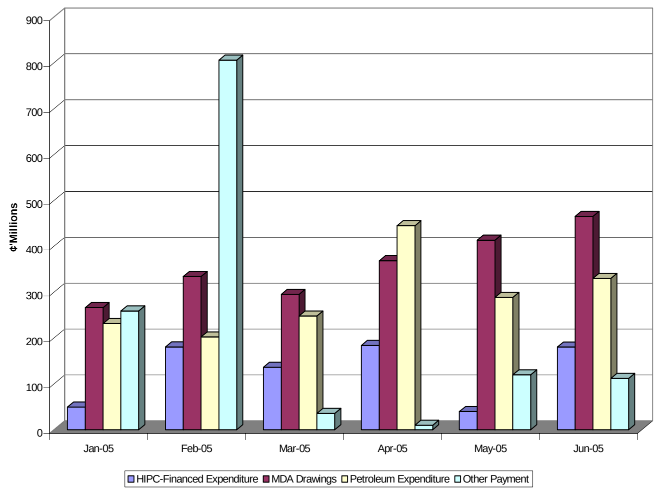
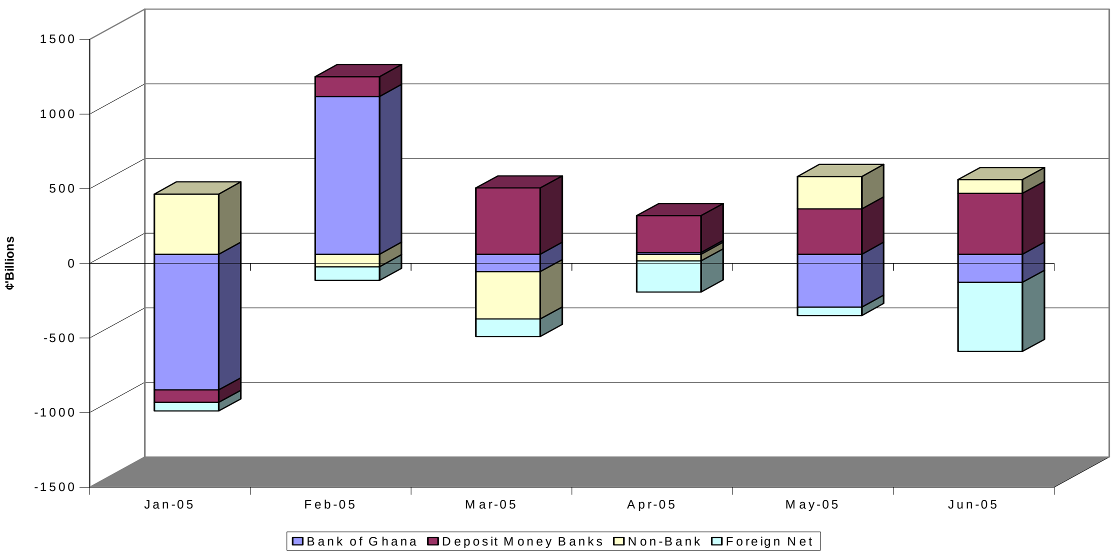


Chart 11: Total Financing (Jan-June 2005)



Composition of Domestic Debt

Over the first half of 2005 the stock of domestic debt of ¢18,581.0 billion (19.3% of end year GDP) showed an increase of ¢1,683.7 billion (10%) over the end December 2004 stock. The short-term instruments increased by ¢181.7 billion, the medium term by ¢1,502.1 billion, but the long-term stocks remained unchanged.

The noticeable shift in holdings from the short term to medium term securities was a reflection of the downward trend in rates in the government securities market during this period. In terms of percentage composition over the period the short term and long term securities decreased from 42.0 and 26.3 to 40.5 per cent and 24.4 per cent respectively. The medium term securities however increased from 31.8 per cent to 35 per cent.

Table 7: Structure of Domestic Debt as at June 2005 (Billion of Cedis)

						JUN 05 & DEC 04	
CATEGORY	**Dec-04**	**% of Total**	**Mar-05**	**Jun-05**	**% of total**	**ABS. CHANGE**	**As a % of Total**
A. SHORT TERM							
91-Day Treasury Bill	3,382.40	20.02	3,739.50	4,249.30	22.87	866.9	24.5
182-Day Treasury Bill	2,691.40	15.93	2,381.40	2,176.70	11.71	-514.7	12.4
1-Year Treasury Note	1,029.80	6.09	692.00	859.30	4.62	-170.5	3.7
SUB-TOTAL (A)	**7,103.60**	42.04	**6,812.90**	**7,285.20**	**39.21**	**181.7**	**40.5**
B. MEDIUM-TERM							
2-Year Floating Treasury Note	1,599.40	9.47	2,134.60	2,481.50	13.36	882.2	13.3
2-Year Fixed Treasury Note	332.90	1.97	696.10	1,211.80	6.52	878.9	4.2
3-Year GOVT. GGILBS	506.80	3.00	225.00	225.00	1.21	-281.7	1.2
3-Year Floating Treasury Note	113.10	0.67	134.20	134.20	0.72	21.0	0.7
3-Year Fixed Treasury Note	156.90	0.93	156.90	158.60	0.85	1.7	0.9
GOG Petroleum Finance Bonds	800.20	4.74	800.20	800.20	4.31	0	4.4
TOR Bonds	1,855.00	10.98	1,855.00	1,855.00	9.98	0	10.2
SUB-TOTAL (C)	**5,364.30**	**31.75**	**6,002.10**	**6,866.40**	**36.95**	**1,502.1**	**35.0**
C. LONG-TERM							
Long Term Govt. Stocks	590.7	3.50	590.7	590.70	3.18	0	3.3
Revaluation Stock	3,816.8	22.59	3,816.80	3,816.80	20.54	0	21.1
Other Government Stocks	21.8	0.13	21.8	21.80	0.12	0	0.1
SUB-TOTAL (C)	**4,429.3**	**26.21**	**4,429.30**	**4,429.30**	**23.84**	**0**	**24.4**
TOTAL (A+B+C)	**16,897.2**		**17,244.30**	**18,581.00**		**1,683.70**	**100**

Holdings of Domestic Debt

Bank of Ghana's holdings of domestic debt as at the end of June 2005 stood at ¢6,015.5 billion (32.1%). The Deposit Money Banks (DMB's) held ¢8,071.7 billion (43.4%), SSNIT ¢638.5 billion (3.4 %) and 'other' holders ¢3,855.3 (20.7%). This compares with the respective holdings of 35.3 per cent, 39.8 per cent, 4.2 per cent and 20.7 per cent respectively in 2004.

Table 8: Holders of Domestic Debt as at June 2005 (Billion of Cedis)

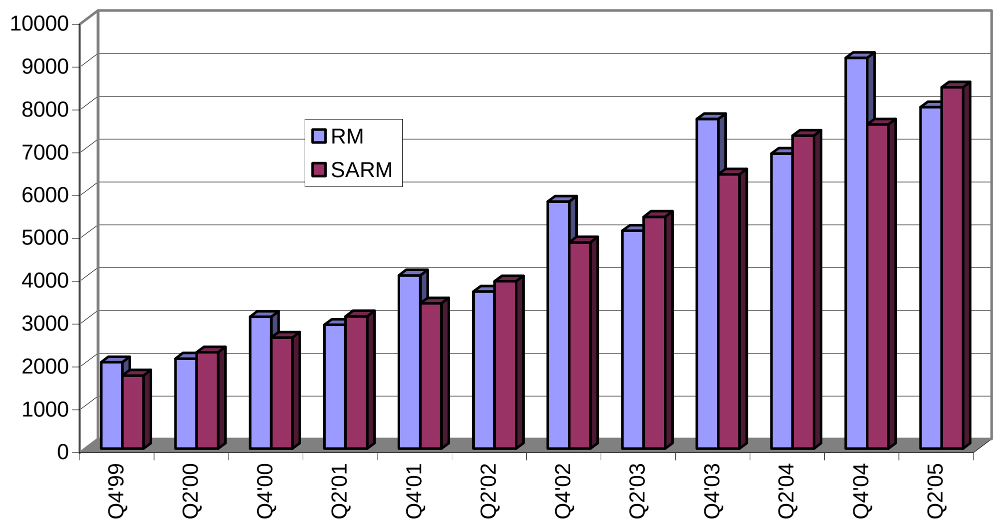
CATEGORY	DEC 2003	%	DEC 2004 C'M	%	MAR 2005 C'M	%	JUNE 2005 C'M	%
BANK OF GHANA	2,680.7	19.7	5,957.9	35.3	5,857.7	34.0	6,015.5	32.4
DEPOSIT MONEY BANKS	5,251.3	38.6	6,727.2	39.8	7,166.6	41.6	8,071.7	43.4
SSNIT	806.0	5.9	715.1	4.2	722.4	4.2	638.5	3.4
OTHER HOLDERS	4,853.3	35.7	3,497.0	20.7	3,497.6	20.3	3,855.3	20.7
TOTAL	13,591.2	100.0	16,897.2	100.0	17,244.3	100.0	18,581.0	100.0

C. MONETARY DEVELOPMENTS

Reserve Money

The year-on-year growth rate of reserve money at the end of June 2005 was 15.7 per cent (¢1,081.4 billion), which is less than both the programme growth rate of 20.7 per cent and the December 2004 growth rate of 18.5 per cent (¢1,424.8 billion). This was also reflected in all of its components. Currency outside banks went up by 9.6 per cent (¢547.7 billion) while Deposit Money Banks (DMBs) reserves and non-bank deposits rose by 47.2 per cent (¢528.4 billion) and 8.7 per cent (¢5.3 billion) respectively. Seasonally adjusted, annual reserve money growth as at the end of the review period was 15.5 per cent, which was a bit lower than that of the actual series and confirms the subdued seasonal effects.

Chart 12: Reserve Money, Actual and Seasonally Adjusted



Sources of Changes in Reserve Money

The Net Foreign Assets (NFA) of the Bank of Ghana was the main source of change in reserve money, increasing at a much lower rate of 19.9 per cent (¢1,486.9 billion) as at the end of June 2005, compared with an annual growth rate of 29.8 per cent (¢2,539.4 billion) for December 2004. This was partially offset by a decline of 67.9 per cent (¢405.5 billion) in the Net Domestic Assets (NDA), which was on account of Claims on Banks that declined by 86.1 per cent (¢719.8 billion) and also the Net Claims on Government that decreased by 14.2 per cent (¢919.3 billion).

Broad Money Supply

The annual growth of broad money supply including foreign currency deposits (M2+) continued its steady downward trend that began in the last quarter of 2004. The level of broad money supply rose to ¢26,898.1 billion at the end of May 2005, representing a growth rate of 23.0 per cent (¢5,023.6 billion) which is still within the programme growth rate of 24.1 per cent for the half year to June 2005. This may be compared with a growth rate of 26.0 per cent (¢5,512.2 billion) as at the end of

December 2004. Seasonally adjusted, M2+ annual growth rate was also 23.0 per cent, compared with 25.9 per cent in December 2004.

Table 9:
Summary of Monetary Aggregates
(Annual Growth Rates)

	Dec. 03	Mar. 04	May 04	Dec. 04	March 05	April 05	May 05	June 05
i. Reserve Money	33.4	35.3	35.1	18.5	24.8	13.7	17.8	15.7
o/w Currency	35.7	33.5	36.8	15.2	21.1	14.9	22.5	9.6
Seasonally Adjusted	32.9	35.6	34.6	18.2	25.1	13.6	17.5	15.4
ii. Broad Money(M2)	40.5	39.6	40.1	26.4	28.1	26.2	23.6	
o/w Demand Deps.	42.0	49.6	47.6	44.6	36.0	31.6	28.4	
Quasi Money	45.3	36.2	36.6	22.5	26.9	32.6	27.7	
Seasonally Adjusted	39.9	39.8	40.3	26.3	27.7	26.5	24.0	
iii. Broad Money (M2+)	37.6	39.7	38.4	25.9	24.3	25.4	22.8	
o/w F. Currency Dep	28.8	40.1	33.3	24.1	12.8	22.7	20.2	
Seasonally Adjusted	37.5	39.8	38.4	25.9	24.1	25.4	23.0	
iv. DMB's Credit	49.6	56.1	47.0	24.7	24.4	43.0	34.5	
o/w Private Sector Credit Growth	37.3	39.5	41.2	29.4	34.4	38.6	39.8	

The growth trend in broad money was reflected in all of its components. The annual growth rate of broad money supply excluding foreign currency deposits (M2) was 23.8 per cent (¢3,938.7 billion) as at the end of May 2005 compared to 26.6 per cent (¢4,407.3 billion) as at the end of December 2004. Similarly, foreign currency deposits also increased on an annual basis by 20.3 per cent (¢1,084.9 billion) from 24.1 per cent (¢1,104.9 billion) in December 2004.

Sources of Changes in M2+

The NDA of the banking system recorded a slightly higher annual growth of 23.8 per cent (¢2,810.3 billion) as at the end of May 2005, compared to NFA growth of 22.0 per cent (¢2,213.3 billion). Therefore both NFA and NDA contributed almost equally to the change in broad money supply during the review period. In December 2004, the NDA grew at 19.3 per cent (¢2,054.1 billion) while the NFA grew more at 32.7 per cent (¢3,439.3 billion). However, compared to the same review period last year, NFA had increased then at 130.3 per cent (¢5,703.8 billion) while NDA increased at a much lower rate of 3.2 per cent (¢362.6 billion). The growth in the NDA of the banking system during the period was supported by increases of 43.9 per cent (¢4,739.4 billion) in net claims on private sector and 20.8 per cent (¢2,255.7 billion) in claims on the government, both mainly from the DMBs. Other Items Net (OIN) declined by 42.4 per cent (¢4,184.8 billion), thereby offsetting the increases in NDA and NFA.

Table 10:
Growth in Actual & Seasonally Adjusted Monetary Aggregates
(Dec, 2002 – May, 2005)

	GM1	GSAM1	GM2	GSAM2	GM2+	GSAM2+
Dec-02	60.5	59.6	50.1	49.3	50.1	49.6
Mar-03	55.5	55.9	44.4	44.6	41.6	41.6
Jun-03	54.4	54.6	44.6	44.7	42.5	42.5
Sep-03	40.2	40.2	37.1	37.3	35.5	35.8
Dec-03	34.8	34.1	40.5	39.9	37.8	37.5
Mar-04	41.3	41.6	39.6	39.8	39.7	39.9
Jun-04	45.2	45.3	41.8	41.9	40.2	40.2
Sep-04	52.3	52.4	44.8	45.0	41.6	41.7
Dec-04	31.9	31.6	26.6	26.3	26.0	25.9
Mar-05	28.0	28.1	27.6	27.8	24.0	24.1
May-05	22.0	22.2	23.9	24.0	23.0	23.0

Seasonal Factors

All the three measures of monetary aggregates showed subdued effects of seasonal factors as well as growth since the fourth quarter of 2004. Indeed, this is consistent with past developments related to Cocoa financing. The seasonal factors have been relatively significant in the fourth quarter whereas the second quarter experienced a much-subdued effect.

Chart 13:
Narrow Money (M1), Actual & Seasonally Adjusted

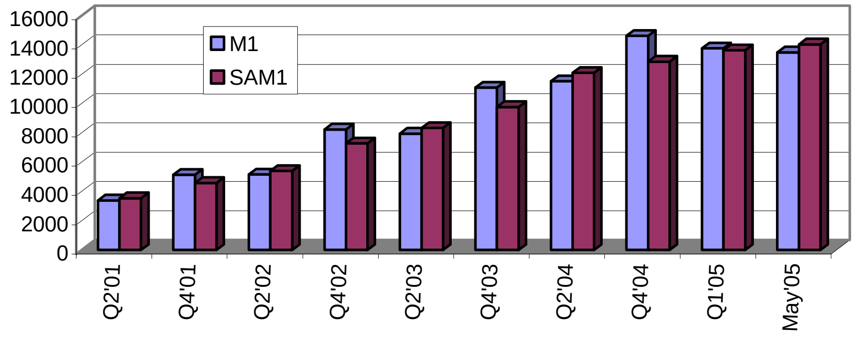


Chart 14: Broad Money (M2), Actual & Seasonally Adjusted

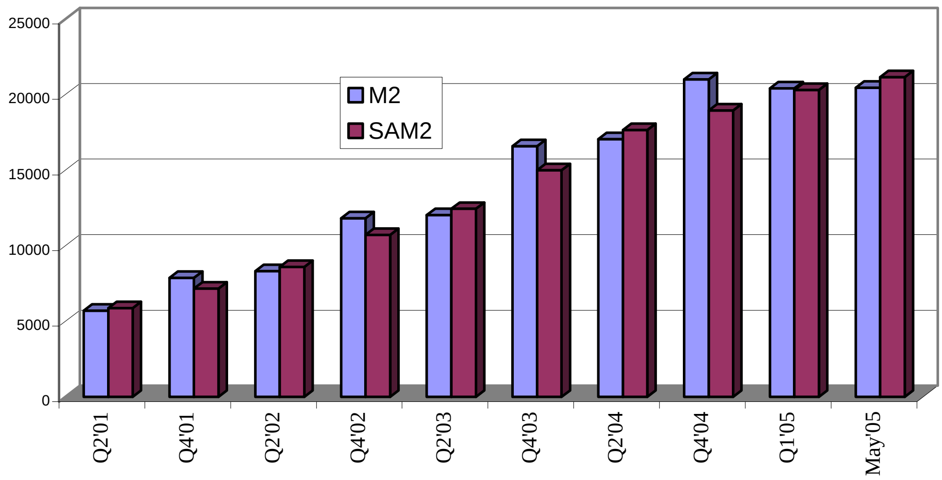
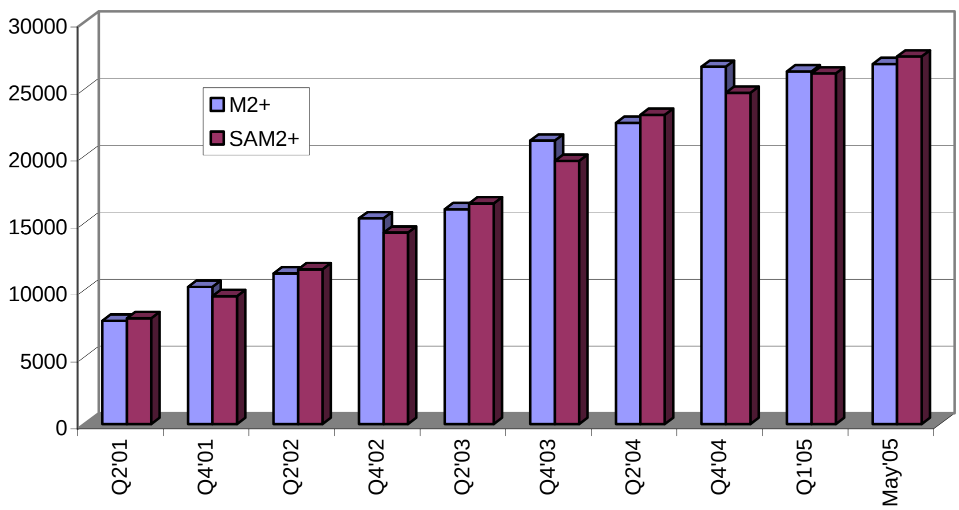


Chart 15:Total Liquidity (M2+), Actual & Seasonally Adjusted



Developments in DMBs Credit

The stock of outstanding credit extended by DMBs to various sectors across public and private institutions as at the end of May 2005 amounted to ¢14,604.6 billion. This represents an increase of 34.3 per cent (¢3,727.5 billion) over the stock of credit a year ago, and an increase of 14.2 per cent (¢1,819.2 billion) over the December 2004 stock of ¢12,785.4 billion. Out of the outstanding stock of credit, the private sector held 83.5 per cent (¢12,185.9 billion) compared with 83.2 per cent at the same time last year. Similarly, the annual growth of credit to the private sector increased to 34.7 per cent (¢3,136.4 billion), from 29.8 per cent (¢2,695.6 billion) as at end-May 2004 and 20.1 per cent (¢2,095.9 billion) as at end-December 2004. On the other hand, the annual growth of credit to the public sector declined to 32.4 per cent (¢3,136.4 billion) as at end-May 2005, from 79.0 per cent (¢806.8 billion) as at end-May 2004. However, compared to end-December 2004 growth rate of 24.0 per cent (¢463.2 billion), the annual growth of credit to the public sector recorded a significant increase of 8.4 per cent.

Table 11:

DMBs Credit to Public, Private and various sectors of the Economy

	May 2004		Dec' 2004		May 2005		Change (May'04–May'05)	
	¢'b	share (%)	¢'b	share (%)	¢'b	share (%)	¢'b	share (%)
Total Credit	**10,877.1**	**100**	**12,785.4**	**100**	**14,604.6**	**100**	**3727.5**	**34.3**
Public Inst.	**1,827.5**	**16.8**	**2,394.7**	**18.7**	**2,418.7**	**16.6**	**591.2**	**32.4**
Private Sector	**9,049.5**	**83.2**	**10,417.2**	**81.5**	**12,185.9**	**83.4**	**3,136.4**	**34.7**
Agric, For, Fish.	927.3	8.5	978.7	7.6	1,004.7	6.9	77.4	8.3
Export Trade	274.1	2.5	276.5	2.2	382.6	2.6	108.4	39.6
Manufacturing	2,162.9	19.9	2,743.7	21.4	3041.4	20.8	878.4	40.6
Tr., Stor.& Com	676.7	6.2	772.7	6.0	968.3	6.6	291.6	43.1
Min. & Quarr.	330.9	3.0	357.6	2.8	368.4	2.5	37.5	11.3
Import Trade	750.9	6.9	1,035.7	8.1	1,099.4	7.5	348.4	46.4
Construction	681.0	6.3	821.2	6.4	880.4	6.0	199.4	29.3
Comm. & Fin.	1,799.2	16.5	2,367.8	20.6	3,139.4	21.5	1,340.2	74.5
Elec.,Gas& W.	316.1	2.9	262.4	2.1	232.7	1.6	**(83.4)**	**26.4**
Services	1040.9	9.6	1,441.2	11.3	1385.2	9.5	344.3	33.1
Miscellaneous	1,618.4	14.9	1,458.0	11.4	2081.8	14.3	463.4	28.6
Cocoa Market.	298.8	2.8	26.6	0.2	20.6	0.1	**(278.2)**	**93.1**

The change in stock of credit to the various sectors over the last twelve months to May 2005, indicate that credit flows to Cocoa marketing declined by almost 93.0 per cent. This is largely attributable to the use of Cocoa bills to finance the purchases in the current season instead of the practice of loan syndication in the past. The Electricity, Gas and Water sector also recorded a decline of 26.4 per cent in credit flow to the sector over the previous twelve months. However, all the other sectors apart from Mining/Quarrying and Agriculture/Forestry/Fishing, recorded significant increases in flows. In terms of the sectoral shares of the stock of outstanding credit, the Commerce & Finance (21.5%), Manufacturing (20.8%), Miscellaneous (14.3%), and Services (9.5%) sectors continue to account for more than 66 per cent of total stock of outstanding credit.

Chart 16:

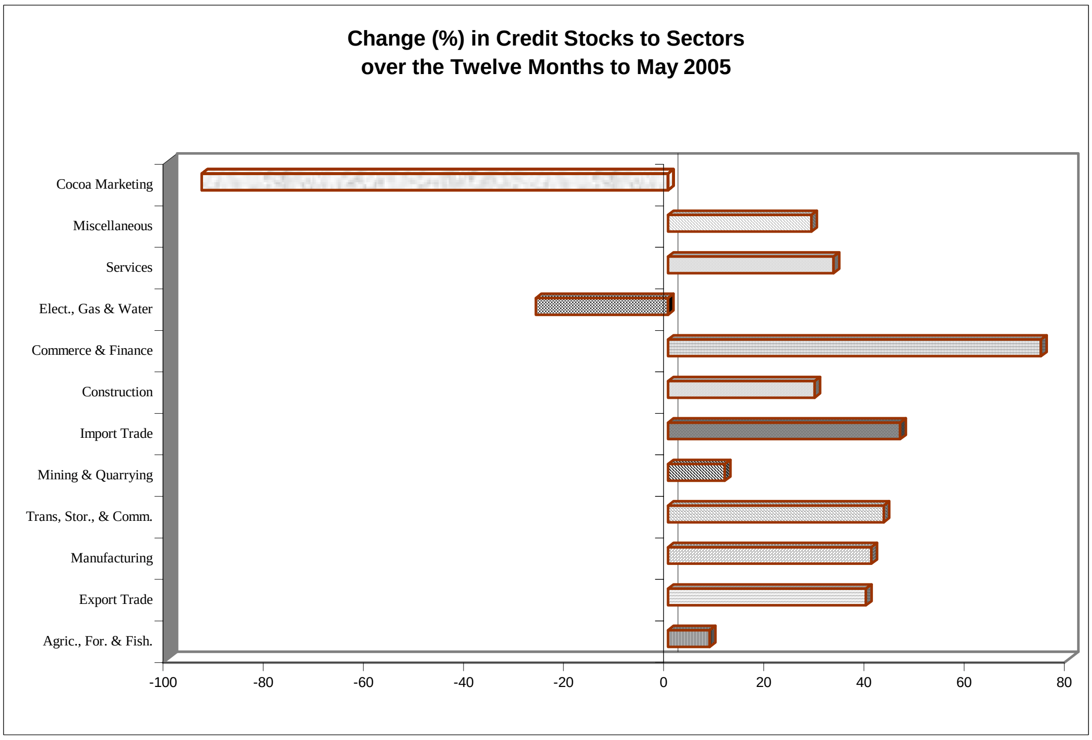
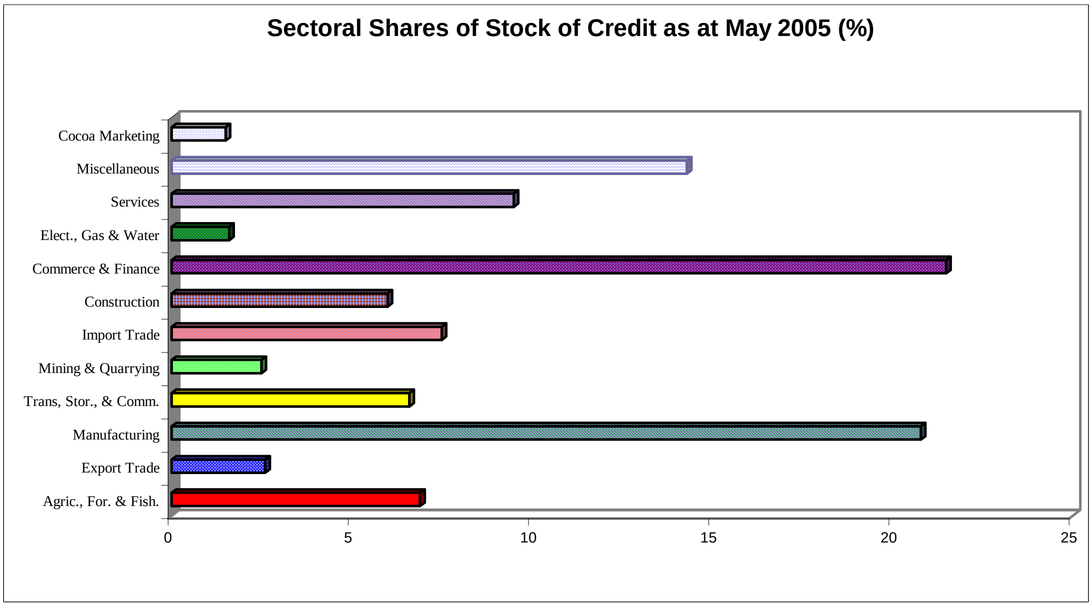


Chart 17:



Distribution of Outstanding Credit to Some Subsectors

Analysis of subsectoral credit outstanding as at end May 2005 reveal the following (See accompanying graphs):

- In the Agriculture, Forestry & Fishing sector, the bulk (¢505.5 billion or 50.3%) of credit outstanding went to the Other Agriculture subsector (made up of growing of field crops, fruits, nuts seeds, vegetables etc). This was followed by the Fishing subsector which received ¢159.4 billion or 15.9 per cent.

- Manufacturing for domestic market subsector took about two-thirds (¢1,892.6 billion or 62.2%) of outstanding credit to the sector while the export subsector received ¢1,148.7 billion or 37.8 per cent. The export subsector of manufacturing, sawmilling and wood processing accounted for 44.9 per cent of outstanding credit while the food, drink & tobacco subsector had 38.5 per cent of funds outstanding for the domestic market subsector.

Chart 18:

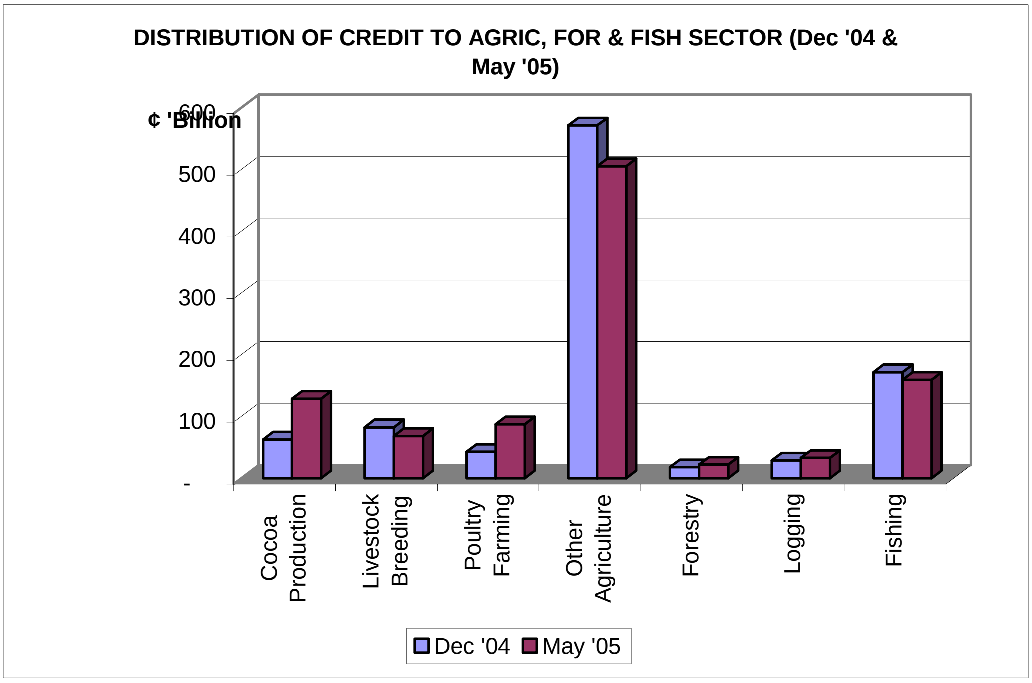


Chart 19:

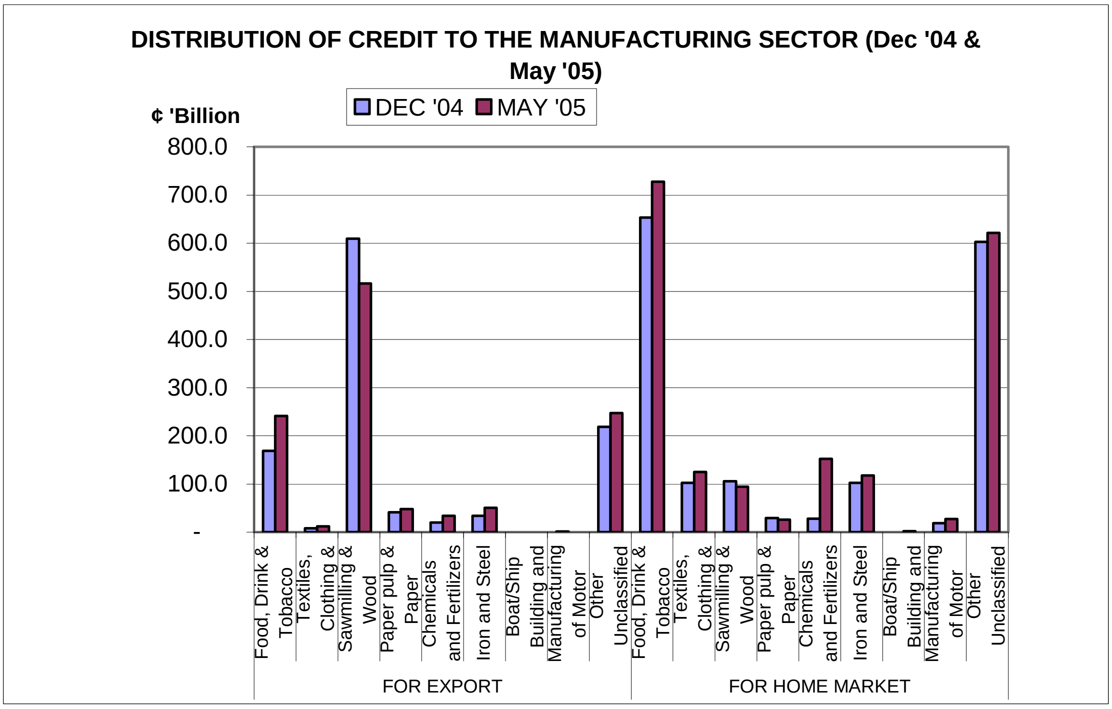


Chart 20:

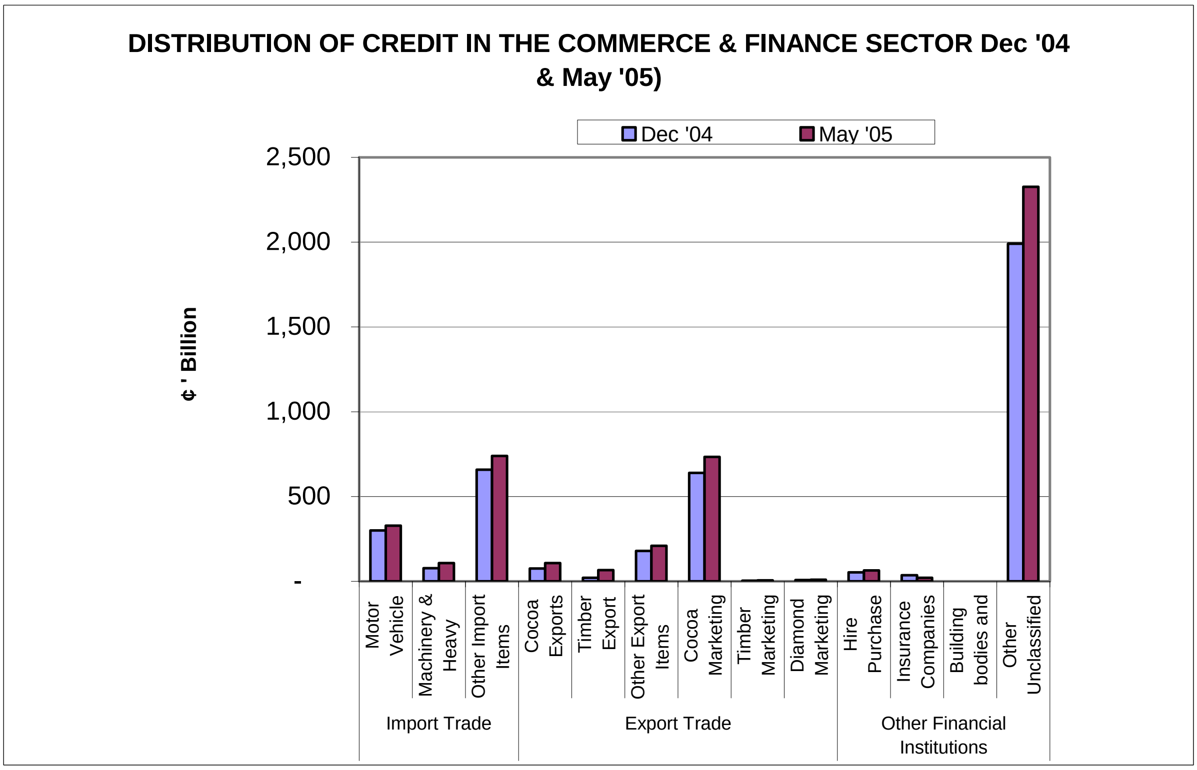
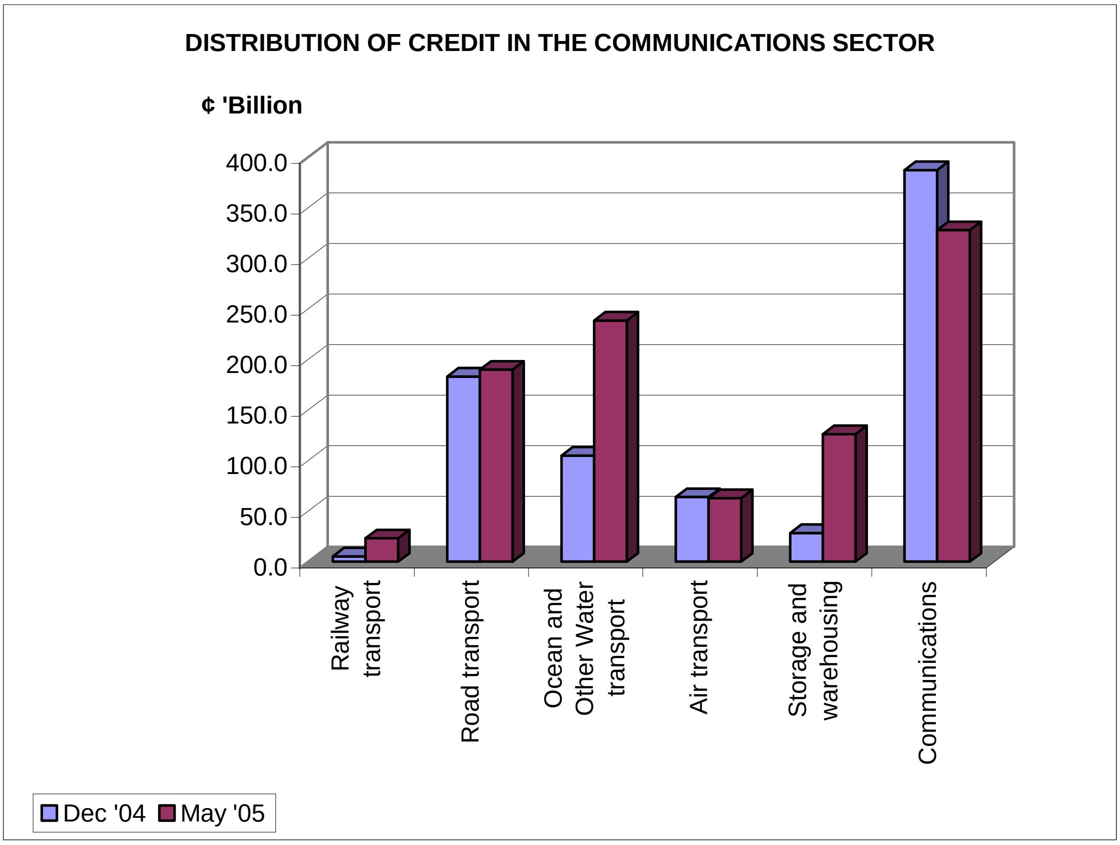


Chart 21:

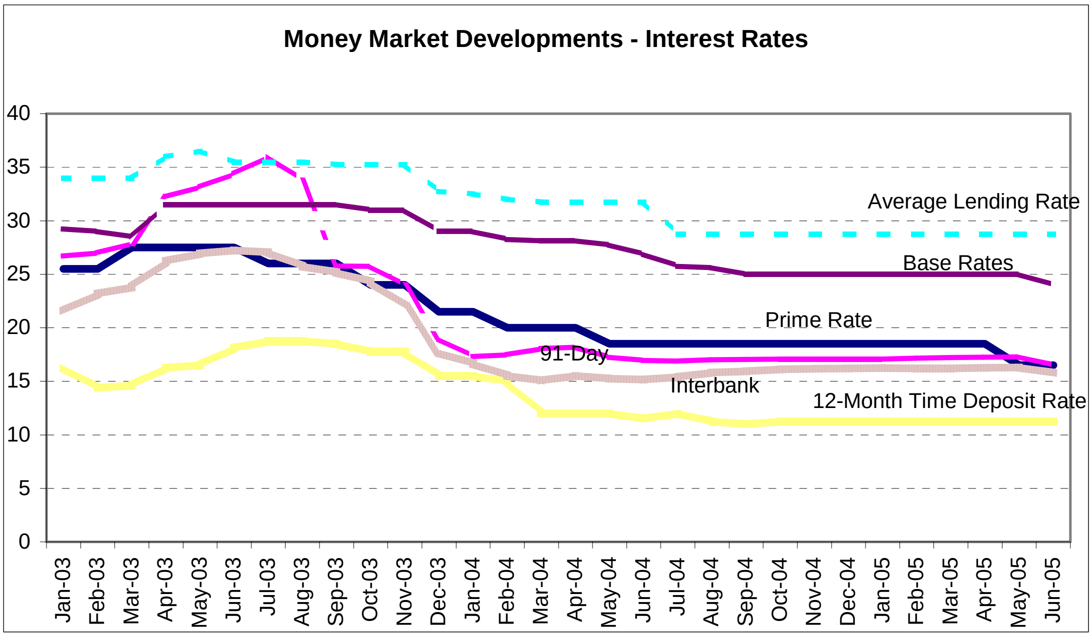


Developments in Interest Rates

The Monetary Policy Committee of the Bank of Ghana lowered the prime rate in May 2005 to 16.5 per cent, from 18.5 per cent, which had been maintained since May 2004. This has therefore caused both money market rates and DMBs lending/borrowing rates to maintain their downward trend even though the spread has remained unchanged since July 2004. During the review period, the 91-day Treasury Bill and the Interbank weighted average rates dropped by 58 and 41 basis points respectively to end the half year at 16.5 per cent and 15.78 per cent respectively.

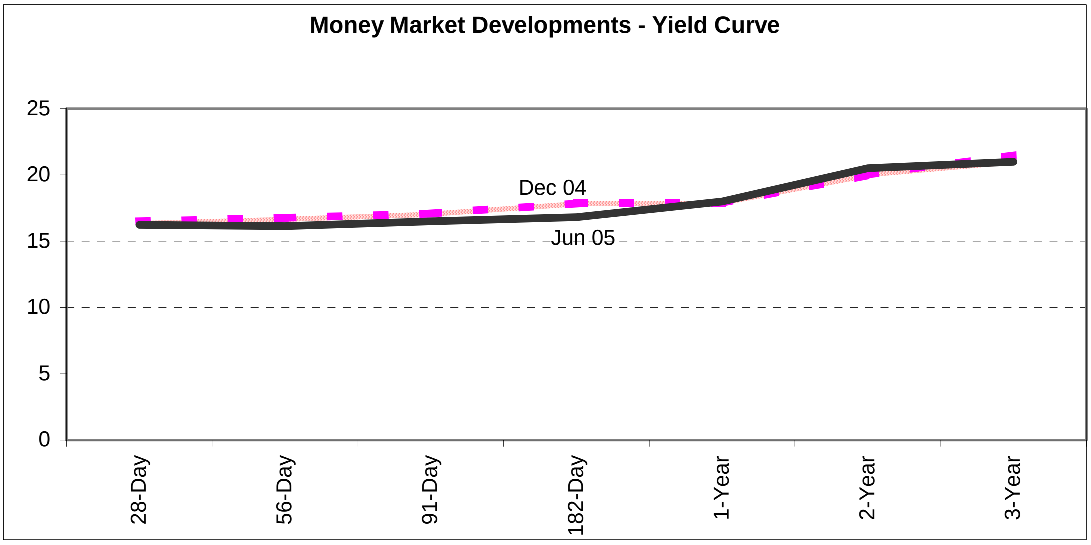
For the DMBs, the rate on the 12-month Time Deposit remained unchanged even though the rate on the 3-month Time Deposit shed off 2.75 percentage points to end the half year at 11.25 per cent and 10.5 per cent respectively. The average lending rates of the DMBs has remained largely unchanged even though their Base Rates fell on average by 1.0 percentage point. This could be attributed to the fact that the DMBs have been trying to work out the implications of the significant monetary changes earlier announced by the Bank of Ghana. The Bank of Ghana lowered the secondary reserve requirements of DMBs from 35.0 per cent to 15.0 per cent, with effect from July 1st 2005.

Chart 22:



The yield curve has however had little change since December 2004 and has maintained an upward slope over the review period.

Chart 23:



D. FINANCIAL MARKETS

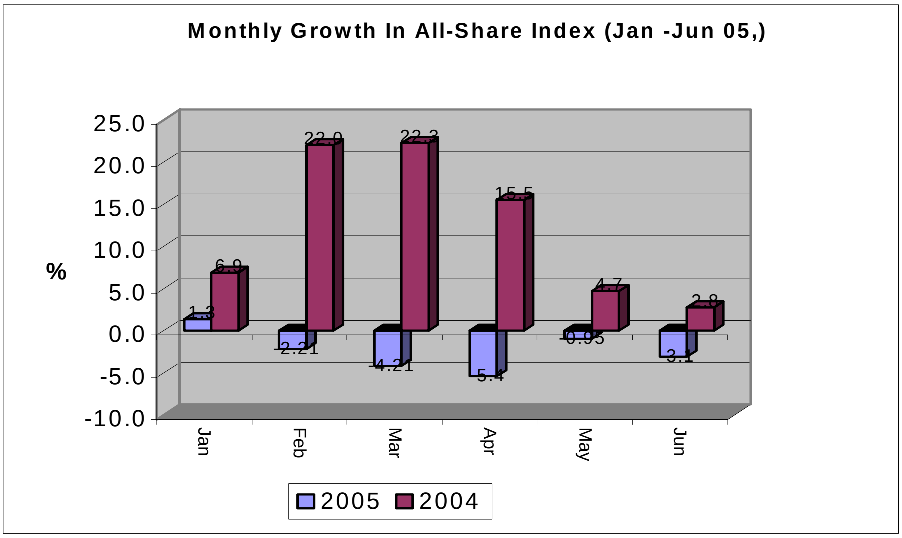
The downward trend in performance of the Ghana Stock Exchange continued during the review period, in a departure from the high performance in 2004. Demand for existing stocks declined, in the absence of new listings, adversely affecting existing stock prices.

GSE All-Share Index

The All- Share index shed 13.8 per cent (935.7 points) off the previous year's close of 6,747.4 points to close the first half of 2005 at 5,862.7 points. Comparatively, the index rose by 98.3 per cent during the corresponding period in 2004. Explaining the turnout at the end of the period would engage the attention of analysts for the simple reason that the results do not conform to the fundamentals on the ground.

Declining interest rates, stable prices and a relatively stable foreign exchange failed to ignite activity on the market. Except for a marginal rise of 0.3 percent in January, the index continuously dropped throughout the period to reflect the bearish mood of the market. The heaviest fall was registered in April when the index pared 5.4 per cent off the previous month’s close on the back of losses in Benso, Oil Palm Plantation (BOPP), Enterprises Insurance Company (EIC), HFC Bank, Ghana Commercial Bank (GCB), Standard Charted Bank (SCB), Trust Bank (TBL), and Unilever (UNIL).

Chart 24: Monthly growth in All-Share Index (Jun - Jun 05)



Some of the factors that have accounted for the slump are

- High equity Prices.

A sustained 2-year rally pushed prices up, rendering the P/E ratios of most equities high. Most investors therefore feel that prices they pay do not commensurate with earning.

- High Selling Pressure.

The market is awash with offers. Either investors are disenchanted with falling prices and hence returns (capital gains) or are selling to make up for the shortfall in disposable income due to increase in expenditure or both.

Sectoral Indices

The Manufacturing sector index bore the brunt of the depression by losing 29.3 per cent (119.0 points) in the six-month period. Aluworks Ghana Limited (ALW) lost 50 per cent of its share value over the period. UNIL, the blue chip conglomerate also lost 25 per cent (¢5,500). The other loser in the sector is the British American Tobacco (BAT), 48.1 per cent. Incidentally, three of the four advancers were manufacturing concerns. However, the increases registered were not enough to off set the heavy declines in the sector.

The Finance sector index was also not spared as it cast off 13.4 per cent to finish the half-year at 419.7 points. SCB lost 21.2 per cent (¢36,000) to close the half year at ¢134,000. All equities in the sub sector took varying amounts off their values; EIC (12.5%), HFC (30%), SSB Bank (7.4%), TBL (10.0 %), CAL Bank (5.9%) and GCB (1.5%).

The Distribution sector followed the trend with a 13.1 percent decline during the review period. Drops in PBC (16.7%), MLC (12.9%), MOGL (2.6%) and Clydestone (2.7%) were enough to send the index down to 659.6 points in spite of the 64 per cent appreciation by CFAO.

BOPP the only equity representing the Agricultural sector, also lost ¢503 to push to Agricultural sector index down to 120 points from 130.1 points.

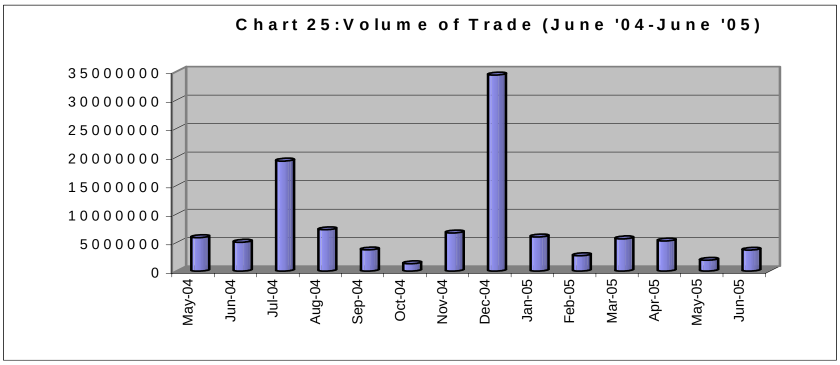
The Mining sub sector remained at its opening position of 109.1 points at the close of the half year.

Table 12: Sectoral Performance

INDEX	SECTOR						
MONTH	**F&B**	**MAN**	**FINANCE**	**DISTR**	**MINING**	**AGRIC**	**ALL-SHARE**
Dec-04	*479.8*	*406.8*	*484.70*	*758.60*	*109.10*	*130.06*	*6798.46*
Jun-05	*452.2*	*287.8*	*419.70*	*659.60*	*109.1*	*120.00*	*5862.74*
ABS	**-27.6**	**-119.0**	**-65.0**	**-99.0**	**0.0**	**-10.1**	**-935.7**
%	**-5.8**	**-29.3**	**-13.4**	**-13.1**	**0.0**	**-7.7**	**-13.8**

Market Performance

The slowdown in market activity reflected in the trading numbers. Volume of trade was particularly not impressive with a trade of 25.2 million shares valued at ¢125.1 billion. Comparatively 31.7 million shares valued at ¢212.3 billion traded during the corresponding period last year.



A supply glut of shares has pushed share prices down. As a result, only four equities advanced while 17 lost ground, six other equities traded flat. (See table below).

Table 13: Year to date change in share prices. (June 2005)

EQUITY	START	END	PRICE CHANGE	% CHANGE
CMLT	970	1701	731	75.4
CFAO	220	361	141	64.1
PZ	4700	6400	1700	36.2
SPL	535	720	185	34.6
GCB	10150	10000	-150	-1.5
GGL	12700	12500	-200	-1.6
CLYD	1330	1300	-30	-2.3
MOGL	39000	38000	-1000	-2.6
SSB	13500	12500	-1000	-7.4
BOPP	6503	6000	-503	-7.7
FML	20000	18000	-2000	-10.0
EIC	8000	7000	-1000	-12.5
TBL	31000	27000	-4000	-12.9
MLC	3100	2700	-400	-12.9
PBC	3600	3000	-600	-16.7
CPC	1000	800	-200	-20.0
SCB	170000	134000	-36000	-21.2
UNIL	22000	16500	-5500	-25.0
HFC	10000	7000	-3000	-30.0
BAT	7700	4000	-3700	-48.1
ALW	10000	5000	-5000	-50.0

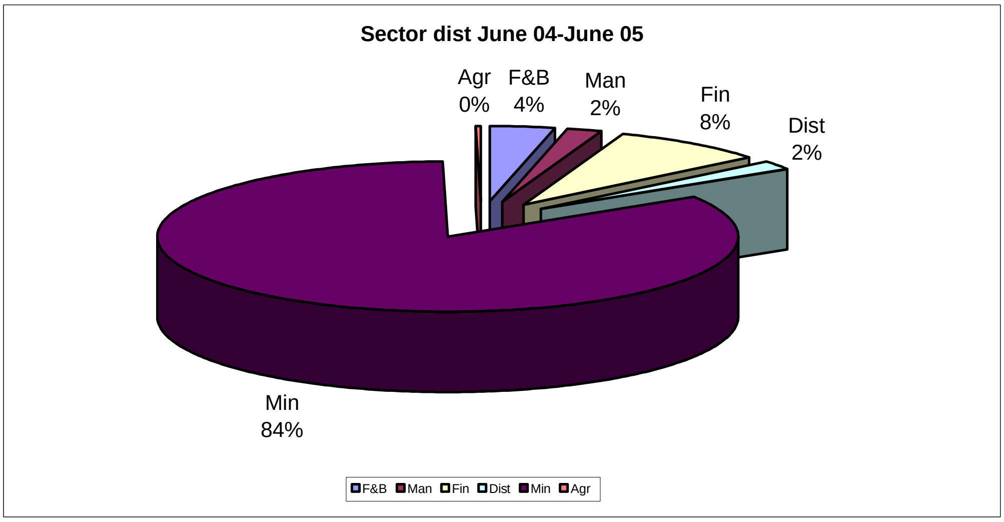
Market Capitalization

Market Capitalization was 3.1 per cent lower (¢3,070.9 billion) at ¢94,543.5 billion. This compares with an increase of 668.5 per cent (¢84,342.9 billion) registered for the same period last year. The marked increase in market capitalization last year was as a result of the listing of AngloGold Ashanti and the delisting of Ashanti Goldfields Company.

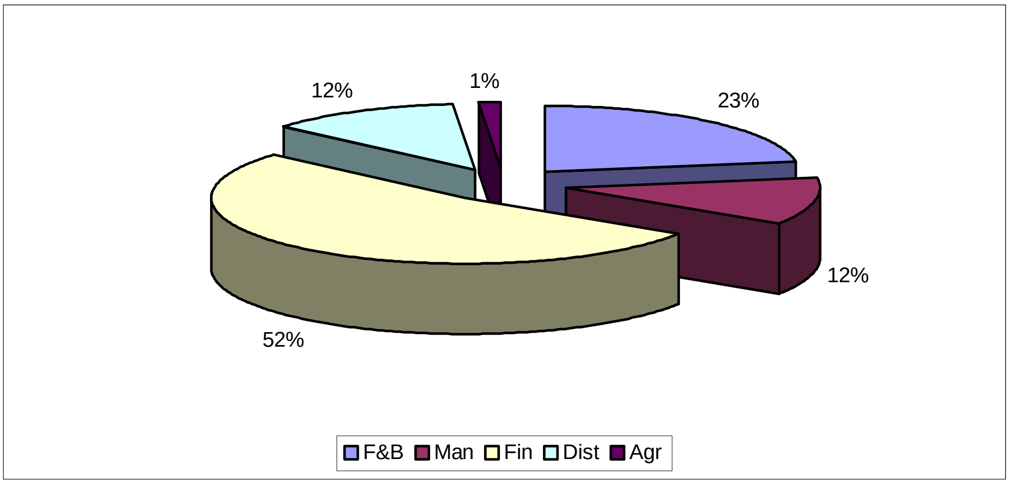
The finance sector contributed largely for the loss of market capitalization by losing ¢1,250.8 billion. This was followed by the Food and Beverage sector, which lost ¢779.5 billion. Others were; Manufacturing (¢741.5 billion), Distribution (¢282.2 billion) and Agricultural (¢18.3 billion).

Chart 26 : Sectoral Distribution of Mkt. Cap.

A.) With the Mining Sector



B.) Without the mining Sector.



The share of the Mining sector in market capitalization remained at 84 per cent. Without AGA the finance sector assumes the mantle with 52 per cent.

BOND MARKET

The bond market was quiet, trading only twice during the period valued at twenty thousand two hundred dollars (US$20,200) in April and US$40,000 in May. The year-to- date turnover value for bonds therefore came to US$60,200.

GGILBS

No trade was recorded in GGILBS during the period. Secondary trading in the Bonds is virtually non-existent, as no trade has been recorded since the beginning of the year. The value of listed Government bonds stood at ¢115.5 billion.

E. PRICE DEVELOPMENTS

Introduction

There is every indication from underlying drivers of inflation that inflationary pressures, which urged up after the petroleum deregulation has began to ease significantly following the initial surge in February and March 2005. This has been the result of monetary and fiscal measures put in place to address the shock to prices.

Headline Inflation

The headline inflation at the end of the second quarter was 15.7 per cent, lower than the preceding month and quarter's respective rates of 16.3 per cent and 16.7 per cent. On quarterly average basis, it jumped from an average of 12.2 per cent in the last quarter of 2004 to 16.2 per cent, resulting from the fuel price adjustment in February.

Chart 27: Overall inflation, Food and Non-food

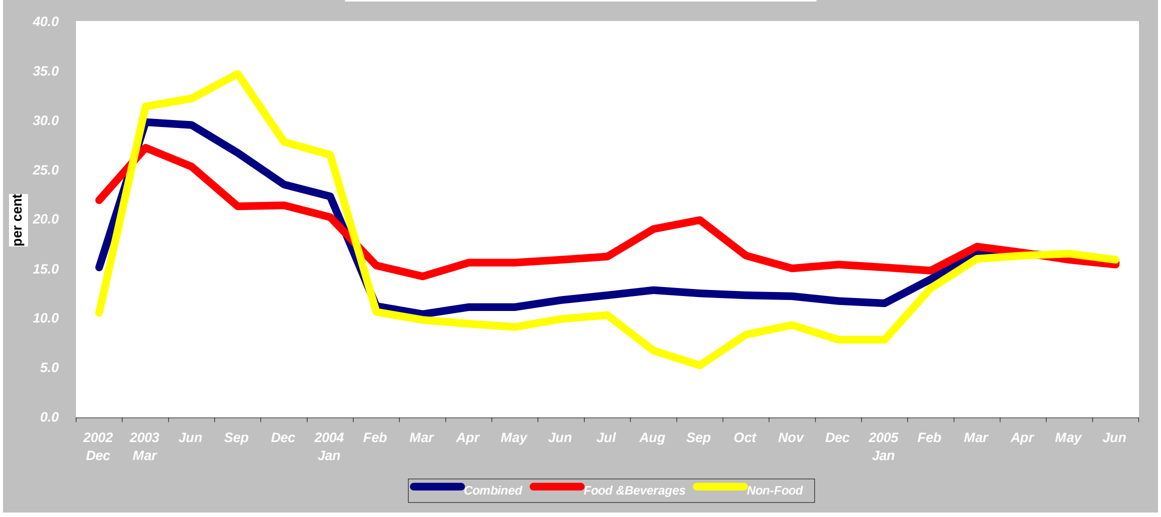


Table 14: Headline Inflation: 2003-2005

	Combined			Food			Non-Food		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**
Jan	16.3	22.4	11.6	22.1	20.3	15.2	12.2	26.6	7.9
Feb	29.4	11.3	14.0	27.0	15.4	14.9	30.7	10.7	13.1
Mar	29.9	10.5	16.7	27.3	14.3	17.3	31.5	9.9	16.1
Jan-Mar, Avg.	25.2	14.7	14.1	25.5	16.7	15.8	24.8	15.7	12.4
Apr	30.0	11.2	16.6	26.3	15.7	16.7	32.2	9.5	16.4
May	29.8	11.2	16.3	35.7	15.8	16.0	32.4	9.2	16.6
Jun	29.6	11.9	15.7	25.4	16.0	15.5	32.3	10.0	16
Apr-Jun,Avg	29.8	11.4	16.2	29.1	15.8	16.1	32.3	9.6	16.3
Jul	29.0	12.4		24.1	16.3		32.3	10.4	
Aug	27.7	12.9		23.6	19.1		33.7	6.8	
Sep	26.8	12.6		21.4	20.0		34.8	5.3	
Jul-Sep,Avg	27.8	12.6		23.0	18.5		33.6	7.5	
Oct	24.6	12.4		22.2	16.4		29.3	8.4	
Nov	23.8	12.3		22.5	15.1		27.2	9.4	
Dec	23.6	11.8		21.5	15.5		27.9	7.9	
Oct-Dec., Avg.	24.0	12.2		22.1	15.7		28.1	8.6	

Average Quarterly Changes in Inflation: month-to-month

Table 15: Monthly Changes in Inflation: 2003-2005

	Combined			Food			Non-Food		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**
Jan	2.0	1.1	0.9	2.6	1.5	1.2	1.6	0.6	0.6
Feb	12.8	2.5	4.8	7.5	3.1	2.9	16.5	1.9	6.8
Mar	2.5	1.8	4.2	3.3	2.3	4.4	1.9	1.2	3.9
Jan-Mar, Avg.	5.8	1.8	3.3	4.5	2.3	2.8	6.7	1.2	3.8
Apr	1.5	2.1	2.0	2.7	3.9	3.3	0.9	0.3	0.6
May	1.2	1.2	1.0	2.1	2.2	1.6	0.5	0.2	0.4
Jun	0.8	1.4	0.9	1.7	2.0	1.5	0.2	0.9	0.3
Apr-Jun, Avg	1.2	1.6	1.3	2.2	2.7	2.1	0.5	0.5	0.4
Jul	0.7	1.1		0.9	1.2		0.6	1.0	
Aug	-0.3	0.2		-2.3	0.1		3.7	0.3	
Sep	-0.5	-0.8		-2.4	-1.6		1.6	0.2	
Jul-Sep, Avg	-0.03	0.17		-1.27	-0.10		1.97	0.50	
Oct	-0.4	-0.6		1.8	-1.2		-2.7	0.1	
Nov	0.5	0.4		1.6	0.4		-0.6	0.3	
Dec	1.2	0.8		0.5	0.9		2.0	0.6	
Oct-Dec.,Avg.	0.2	0.4		1.30	0.03		-0.4	0.3	

Monthly Inflation

The monthly inflation, as measured by changes in month to month consumer price index, within the last half year increased from an average of 0.4 per cent within the last quarter of the preceding year to an average of 3.3 per cent in the first quarter but dropped to an average of 1.3 per cent in the second quarter. The jump in the first quarter of the year was the result of both the fuel price adjustment in February as well as the impact of the lean season particularly on food prices. The policy response after the fuel price adjustment was the result of considerable drop in both food and non-food prices, contributing to the disinflationary process.

Chart 28: Combined Inflation: m-to-m

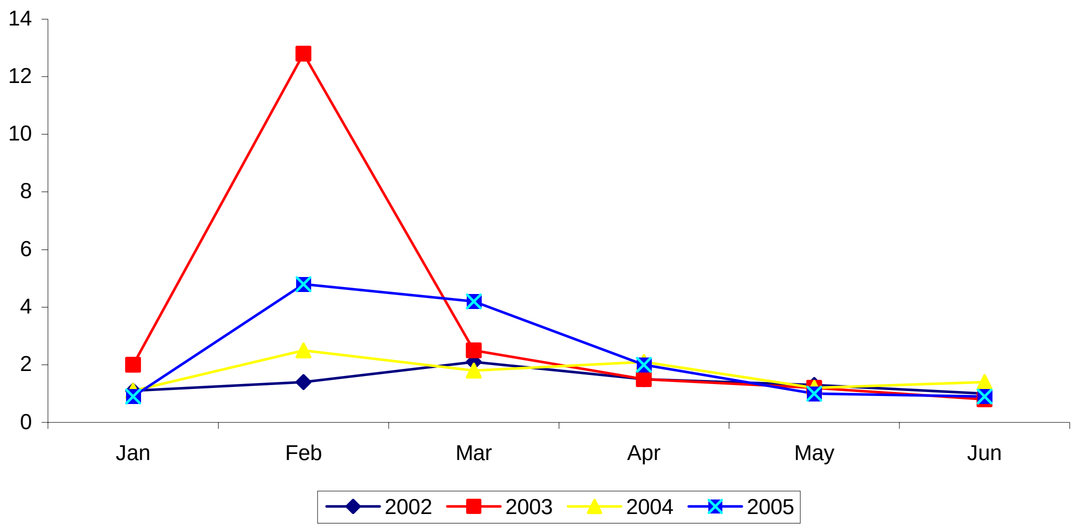


Chart 29: Food inflation : month-to-month

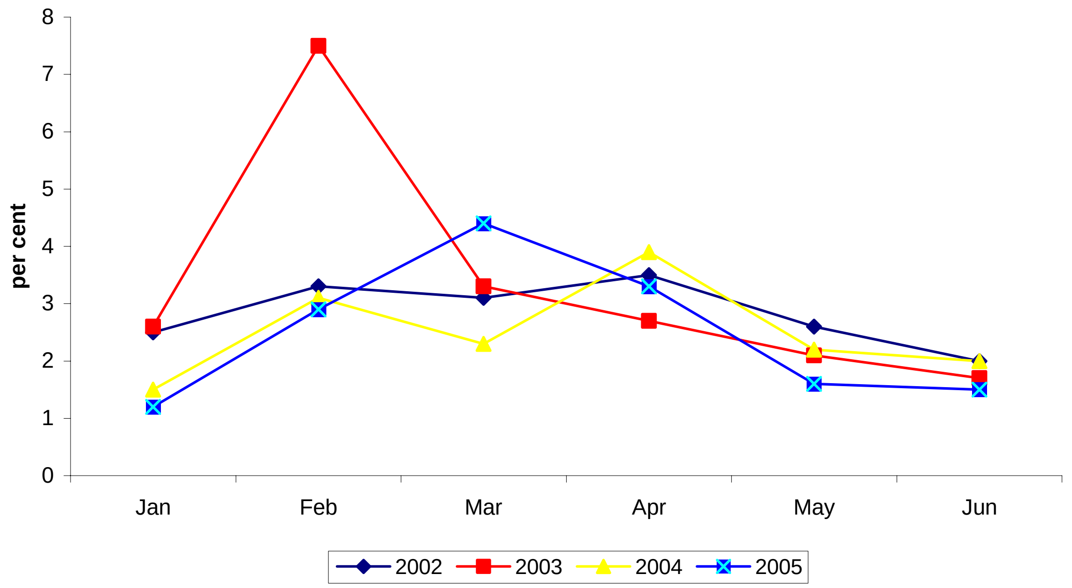
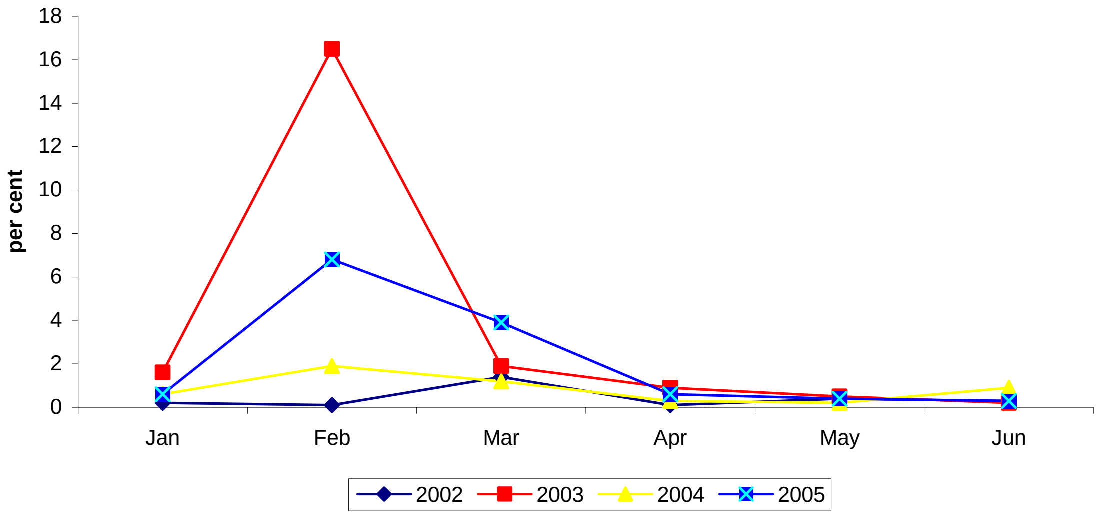


Chart 30: Non-Food Inflation:month-to-month



Component Analysis of Consumer Price Index

The most noteworthy development regarding the sub-component indices analysis within the review period is that inflation recorded within the first and second quarters of the year for all the sub indices were higher than figures recorded for the same sub-indices at the end of the last quarter in the previous year. This was on account of fuel price adjustment in February. It is however, interesting to note that all the sub-components indices, except medical care and health expenses as well as recreation and entertainment, showed a much slower growth during the second quarter than the preceding quarter suggesting that the general price level during the second quarter slowed down.

Table 16: Component Analysis of Consumer Price Index (Quarterly growth rates 2003-2005)

		Food	Non-Food							
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 and Communi-captions	Recreation Entertainment, Education and Cultural Services	Miscellaneous Goods and Services
2003										
Q1	17.9	13.9	6.7	7.6	54.2	7.5	6	47.9	5.6	12
Q2	3.5	6.6	1.7	3.3	-0.3	3.2	0.6	0.2	0.7	1.8
Q3	-0.1	-3.8	6.2	1	1	4.7	-2.7	2	2.4	-0.7
Q4	1.3	4	1.9	1.2	5.6	3.1	0	2.4	8.8	4.2
2004										
Q1	5.5	7.1	3.8	3.2	7.3	-1.2	8.2	4.9	-5.8	3
Q2	4.9	8.2	0.1	2.8	2	4	3.2	1.4	3.1	1.2
Q3	0.5	-0.4	1.4	-0.4	4.8	-0.3	3.4	0.06	-1.9	-2.7
Q4	0.5	0.12	1.1	-0.96	3.9	0.1	4.6	0.97	4.7	1.1
2005										
Q1	10.1	8.8	5.0	4.4	17.0	6.2	8.6	26.9	6.7	4.8
Q2	4.0	6.5	2.3	2.4	0.2	2.8	10.6	2.5	7.8	2.4

Core Measures of Inflation

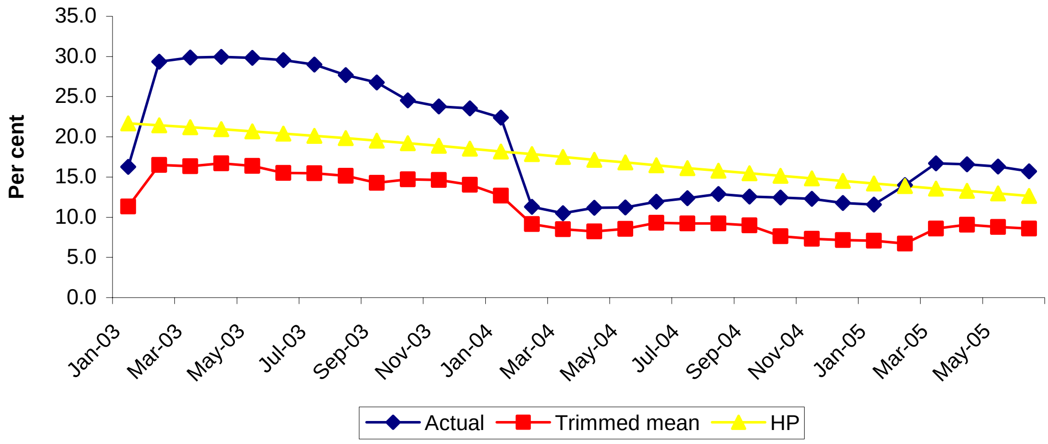
The monthly changes in the various measures of core inflation, measuring the underlying trend in inflation, recorded an upsurge in all the measures of the core inflation from the last quarter in 2004 to the first quarter of this year, pointing out the presence of inflationary pressures. This trend has since changed as all the measures of core inflation within the second quarter shows a relatively slow down in the underlying inflation compared to the development in the preceding quarter suggesting that temporary inflationary build up resulting from the petroleum price adjustment continues to ease. The estimated year-on-year changes in all the core measures of inflation also pointed downwards though INFXEUFT and INFXAFE recorded slight increases in the second quarter relative to the preceding quarter.

Table 17: Core Measures of Inflation

	Mar-04	Jun-04	Dec-04	Mar-05	Apr-05	May-05	Jun-05	Change	
								Mar-Jun04	Mar-Jun05
Headline Inflation: CPI levels	340.5	356.7	360.7	397.0	405.22	409.3	413.2		
Monthly inflation Rates	1.8	1.4	0.8	4.2	2.2	1.0	0.9	**-0.4**	**-3.1**
Inflation Rate	10.5	11.9	11.8	16.7	16.6	16.3	15.7	**1.4**	**-1**
CORE1:INFXEU[1]									
Estimated CPI-CORE1	325.1	340.3	344.3	376.6	384.2	388.1	391.7		
Estimated Monthly Change	1.8	1.4	0.7	4.2	2.0	1.0	0.9	**-0.4**	**-3.3**
Implied yr-on-yr Inf. Rate	10.9	12.1	12.1	14.8	14.6	14.6	14.0	**1.2**	**-0.8**
CORE2:INFXEUF[2]									
Estimated CPI-CORE1	320.6	329.9	333.7	355.5	358.8	361.7	365.0		
Estimated Monthly Change	1.6	1.0	0.1	3.5	1.8	0.8	0.9	**-0.6**	**-2.6**
Implied yr-on-yr Inf. Rate	10.7	10.7	9.3	10.9	10.4	10.7	10.6	**0.0**	**-0.3**
CORE3:INFXEUFT[3]									
Estimated CPI-CORE1	319.8	329.1	332.4	346.8	353.6	357.4	360.4		
Estimated Monthly Change	1.5	1.0	0.1	2.6	1.8	1.1	0.8	**-0.5**	**-1.8**
Implied yr-on-yr Inf. Rate	10.5	10.4	9.0	8.4	9.0	9.7	9.5	**-0.1**	**1.1**
CORE4:INFXAFE[4]									
Estimated CPI-CORE1	281.2	284.4	288.0	299.1	301.0	300.7	303.3		
Estimated Monthly Change	0.6	0.5	0.3	1.8	0.6	-0.1	0.8	**-0.1**	**-1**
Implied yr-on-yr Inf. Rate	5.6	5.9	5.1	6.4	6.6	6.3	6.6	**0.3**	**0.6**
HP Inflation[5]									
Implied yr-on-yr Inf. Rate	17.5	17.2	14.5	13.6	13.3	12.9	12.7	**-0.3**	**-0.9**
Trimmed Mean Core Inf.Rate[6]									
Estimated Monthly Change	1.3	1.2	0.7	3.7	1.9	0.9	1.1	**-0.1**	**-2.6**
Implied yr-on-yr Inf. Rate	8.5	9.3	7.2	8.6	9.1	8.8	8.6	**0.8**	**0.0**

[1] Excludes energy and utility price changes from the basket
[2] Excludes energy, utility and selected volatile food items
[3] Excludes transport in the basket of INFXEUF
[4] Excludes all the food items, utility and transport from the basket
[5] Eliminates cyclical component of the inflation
[6] Excludes the most volatile item (items) in each month

Chart 31: Actual Inflation, Trimmed Mean and HP Core Inflation



Actual and Seasonally Adjusted (SA) Inflation

Analysis of actual and seasonally adjusted overall, food and non-food inflation for the review month indicates that inflation followed its seasonal path in the same period in the previous year. Though changes in the seasonally adjusted food inflation was lower than its actual level, which suggest that lean season had impacted on the food inflation, this did not reflect in the overall inflation. This could be due to the development in the actual and seasonally adjusted non-food inflation that showed a higher seasonally adjusted inflation than its actual level within the review period. Another interesting development from the seasonal analysis is the gradual convergence of the actual food inflation and seasonally adjusted food inflation, suggesting that impact of the lean food season was easing.

Chart 32: Overall and Seasonally Adjusted Inflation

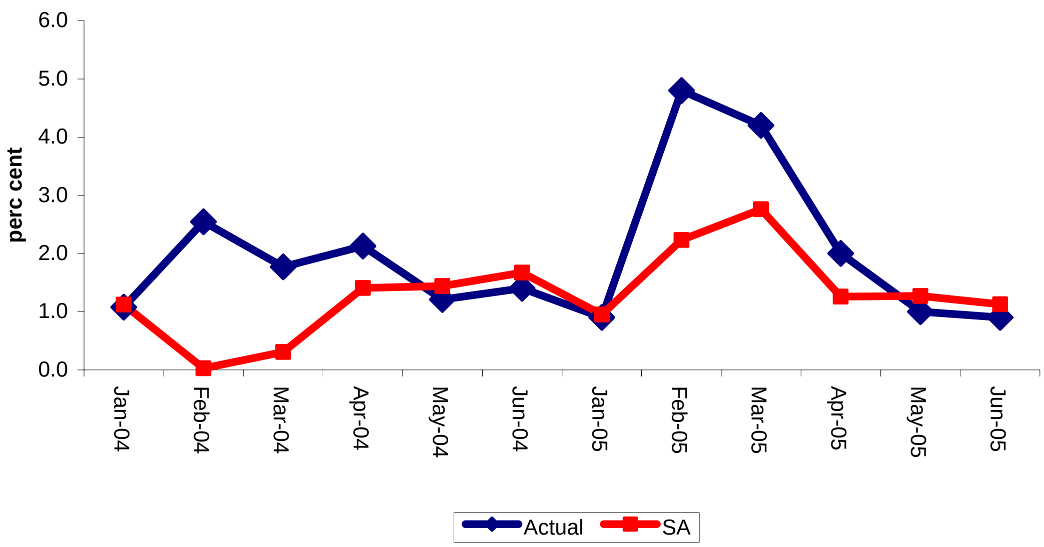


Chart 33: Actual and Seasonally Adjusted Food Inflation

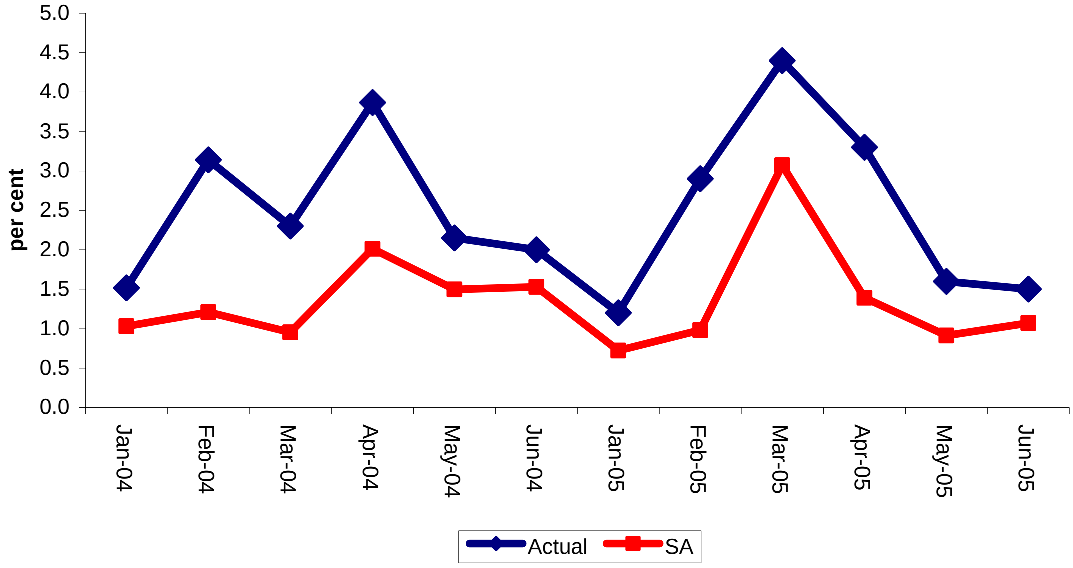
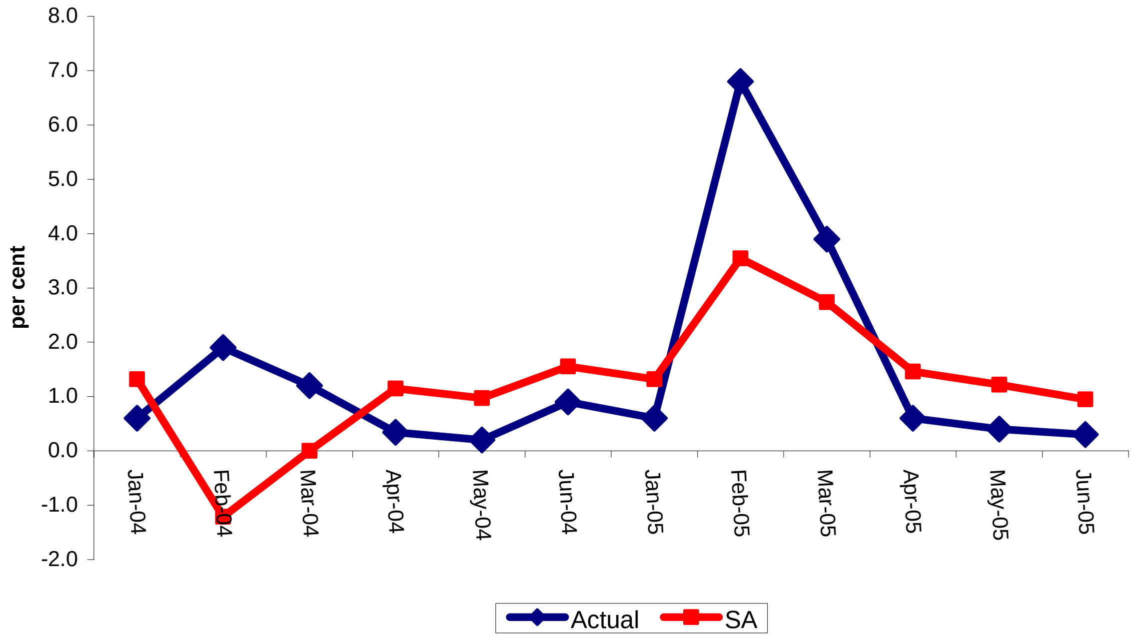


Chart 34: Actual and Seasonally Adjusted Non-Food Inflation



Urban and Rural Inflation Analysis

Analysis on both the monthly and year-on-year changes in inflation within the review period indicate that inflation in both urban and rural areas increased from considerably from end of December 2004 levels to the end of March but declined considerably at the end of the second quarter. Urban and rural inflation, as measured in terms of monthly changes and year-on-year changes as well as percentage changes in CPI from March to June, indicated that both urban and rural inflation during the quarter slightly eased compared with same period in the previous year. During the period also the rural inflation recorded higher rates than inflation in the urban areas. Monthly changes in urban inflation recorded an increase of 0.5 per cent at the end of the second quarter compared with 1.2 per cent increase recorded in the rural areas. This reflected in the year-on-year inflationary development. In all, the slight upsurge in inflation within the quarter was as a result of changes in both the urban and rural inflation with rural inflation contributing more to the changes in the overall inflation within the review quarter.

Table 18: Urban, Accra and Rural Inflation (Monthly and Yr-on-Yr)

Period	URBAN		RURAL		Accra	
	Month-on-month	Year-on-Year	Month-on-month	Year-on-Year	Month-on-month	Year-on-Year
2004 Jan	0.9	25.4	1.2	24.5	0.3	26.6
Feb	1.7	14.6	1.1	10.5	2.3	16.5
Mar	2.1	15.5	1.5	8.5	2.5	17.2
Apr	2.1	16.0	2.3	9.5	1.4	16.6
May	1.0	16.0	1.8	10.0	2.7	19.4
Jun	1.8	17.6	0.9	9.8	1.9	20.8
Jul	0.2	16.3	1.6	11.2	1.5	21.9
Aug	0.0	15.4	0.6	13.0	0.8	21.7
Sep	-1.1	13.3	-0.1	14.2	-1.2	19.0
Oct	-0.9	11.9	0.7	12.5	-0.1	19.9
Nov	0.1	11.2	0.0	13.1	0.1	18.1
Dec	0.2	8.2	2.1	15.1	0.2	13.2
2005 Jan	1.1	8.6	1.1	15.0	1.6	14.7
Feb	3.6	10.6	2.7	15.3	2.7	15.3
Mar	4.4	13.0	4.4	23.4	3.5	16.3
Apr	2.7	13.7	1.5	22.4	1.2	16.1
May	0.7	13.3	1.9	22.6	1.5	14.7
Jun	0.5	11.9	1.2	23.0	1.0	13.7

Chart 35: Urban, Rural and Accra Inflation: yr-on-yr

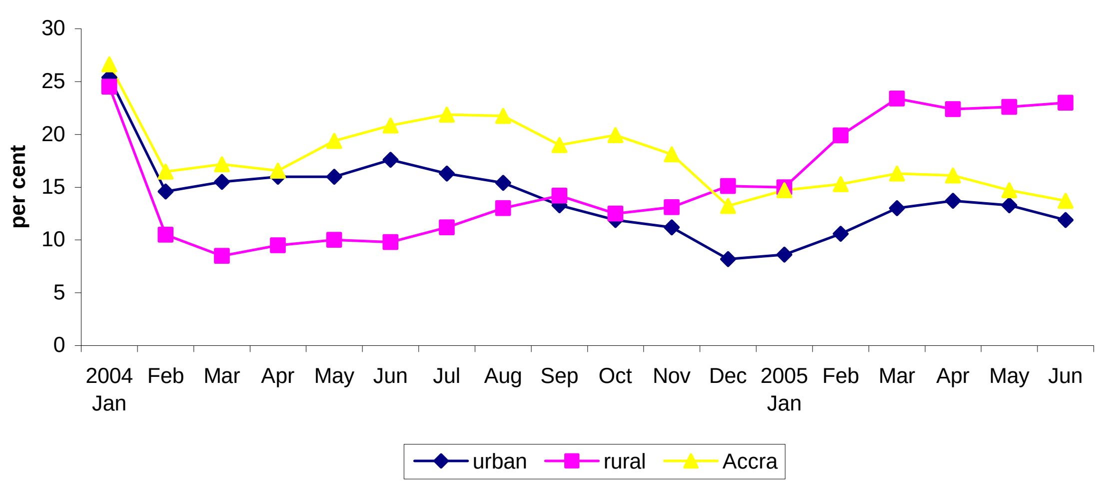


Table 19: Urban, Accra and Rural Inflation

	2003	2004	2005	2003	2004	2005
	June			% Change		
	Pt-to-Pt	Pt-to-Pt	Pt-to-Pt	Mar-Jun		
Urban centres index	29.0	17.6	11.9	3.1	5.0	3.9
Food	25.6	24.2	10.9	6.1	6.1	6.8
Rural Areas Index	30.0	9.8	23.0	3.8	5.1	4.7
Food	25.3	13.0	18.2	7.0	9.4	4.7
Accra Index	33.3	20.8	13.7	2.9	6.1	3.8
Food	26.4	35.7	13.5	5.1	8.0	7.1
National Index	29.6	11.9	15.7	3.5	4.9	4.0
Food	25.4	16.0	15.5	6.6	4.2	6.5

Outlook

The disinflationary process is expected to continue in the coming month given the downward trend of the underlying inflation as well as the gradual convergence of the actual and seasonally adjusted food inflation suggesting a slow down in the impact of the lean season on food inflation.

F. DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

I. International Exchange Rate Market

During the first half of the year the foreign currency market was moderately stable as interest rate assumed the dominant factor moving the market. The US dollar benefited from the US Federal Reserve Bank (Fed) interest rate hikes during the period. The euro however did not fare well as a result of political crisis in the European Union (EU) and the collapse of talks over the Union long-term budget.

Table 20: International Exchange Rate Movement

End Period	US$/£	Monthly	Year-to-Date	US$/E	Monthly	Year-to-Date	US$/¥	Monthly	Year-to-Date
2002 Dec	1.6035		-9.6	1.0427		-15.1	0.0083		-8.4
2003 Dec	1.7784	-3.1	-9.8	1.2556	-4.5237	-17.0	0.0093	-2.15	-10.8
2004									
Jan	1.8168	-2.1	-2.1	1.2416	1.1	1.1	0.0094	-1.1	-1.1
Feb	1.8621	-2.4	-4.5	1.2434	-0.1	1.0	0.0091	3.3	2.2
Mar	1.8261	2.0	-2.6	1.2177	2.1	3.1	0.0094	-3.2	-1.1
Q1	**1.8261**		**-2.6**	**1.2177**		**3.1**	**0.0094**		**-1.1**
Apr	1.7743	2.9	0.2	1.1983	1.6	4.8	0.0091	3.3	2.2
May	1.8345	-3.3	-3.1	1.2242	-2.1	2.6	0.0090	1.1	3.3
Jun	1.8073	1.5	-1.6	1.2084	1.3	3.9	0.0092	-2.2	1.1
Mid-year	**1.8073**		**-1.6**	**1.2084**		**3.9**	**0.0092**		**1.1**
2005									
Jan	1.8875	2.1	2.1	1.3034	4.7	4.7	0.0096	1.0	1.0
Feb	1.9219	-1.8	0.2	1.3235	-1.5	3.1	0.0096	0.0	1.0
Mar	1.8741	2.6	2.8	1.2916	2.5	5.6	0.0093	3.2	4.3
Q1	**1.8741**		**2.8**	**1.2916**		**5.6**	**0.0093**		**4.3**
Apr	1.9076	-1.8	1.0	1.2870	0.4	6.0	0.0095	-2.1	2.1
May	1.8234	4.6	5.7	1.2473	3.2	9.4	0.0092	3.3	5.4
Jun	1.8047	1.0	6.8	1.2065	3.4	13.1	0.0090	2.2	7.8
Mid-year	**1.8047**		**6.8**	**1.2065**		**13.1**	**0.0090**		**7.8**

Depreciation (-)/Appreciation (+)

Source: The Economist (Various Issues)

The US Dollar

The weakening of the US dollar during the greater part of 2004, was not carried through to the first half of 2005, as the Fed increased interest rates from the beginning of the year. The US interest rate was increased four times from 2.25 per cent in December 2004 to 3.25 per cent in June 2005. The rising interest rates lured investors to the US dollar denominated assets and coupled with vigorous growth of the US economy led to a strengthening of the dollar.

The US dollar outperformed all the major currencies during the review period, appreciating by 13.1 per cent, 7.8 per cent and 6.8 per cent against the euro, the yen and the pound sterling respectively. In contrast, the US dollar depreciated by 1.6 per cent against the pound sterling and appreciated at lower rates of 3.9 per cent and 1.1 per cent respectively against the euro and yen during the corresponding period of 2004.

The Euro, the Pound Sterling and the Yen

The downward trending of the **euro** during the first half of the year was underpinned by lower growth prospects, sticky interest rates and crisis in the EU. The euro shed off 13.1 per cent against the US dollar by end June compared with a lower dip of 3.9 per cent during the corresponding period last year.

The slow growth of the British economy, especially in the industrial and housing sub-sectors prevented the **pound sterling** from taking advantage of the weakening of the euro. The pound sterling could not match the strength of the US dollar as it trended lower by 6.8 per cent. In contrast, the sterling performed strongly during 2004 when the US dollar depreciated by 1.6 per cent.

The continued pressure being exerted by the US Congress on China for the revaluation of the Yuan, coupled with rising oil price that threatened Japan's economic growth, kept the **yen** low. It lost grounds by 7.8 per cent during the half year to the US dollar compared with a lower dip of 1.1 per cent during the corresponding period last year.

II. THE DOMESTIC MARKET

The cedi posted very good performance on the domestic currency market maintaining its relative stability throughout the half year under review. The strong performance was recorded in both the inter-bank and the forex bureau markets. Apart from the US dollar that was very buoyant on the international market and had a slight edge in the inter-bank market, the cedi appreciated against all the major currencies traded on the domestic market.

The strong performance of the cedi on the domestic currency was on account of:

- Continuous foreign exchange inflows, partly due to improved private remittances passing through formal channels.
- Improved foreign exchange liquidity on the forex market.
- Prudent fiscal and monetary policies
- Relatively strong external reserves supporting the cedi.
- Favourable media reports on the health of the economy and favourable market sentiments, which in effect produced very little speculation in the market.

i. Inter-Bank Market

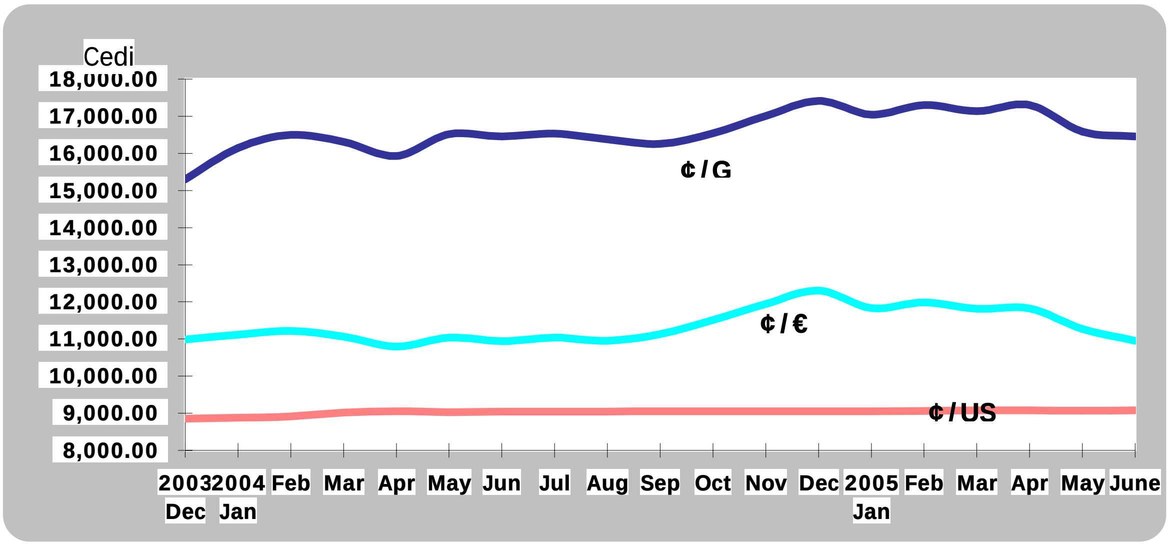
In the inter-bank market the cedi depreciated by 0.3 per cent against the US dollar as the cedi/US dollar rate increased marginally from ¢9,051.26 in December 2004 to ¢9,074.91 in June 2005. The cedi appreciated by 5.8 per cent and 12.4 per cent against the pound sterling and euro respectively during the half year. During the same period last year the cedi traded weaker as it depreciated against the US dollar and the pound sterling by 2.1 per cent and 7.0 per cent respectively and appreciated marginally by 0.4 per cent against the euro.

Table 21: Inter-Bank Transactions Exchange Rate Movements

End Period	¢/US$	Monthly	Year-to-Date	¢/£	Monthly	Year-to-Date	¢/€	Monthly	Year-to-Date
2002	8,438.82	-1.2	-13.2	13,305.25	-2.7	-20.4	8,511.64	-1.5	-23.6
2003	8,852.32	-0.5	-4.7	15,296.02	-4.1	-13.0	10,986.26	-5.50	-22.5
2004									
Jan	8,880.24	-0.3	-0.3	16,144.47	-5.3	-5.3	11,112.54	-1.1	-1.1
Feb	8,915.16	-0.4	-0.7	16,497.87	-2.1	-7.3	11,217.94	-0.9	-2.1
Mar	9,018.29	-1.1	-1.8	16,309.55	1.2	-6.2	11,061.32	1.4	-0.7
Q1	**9,018.29**		**-1.8**	**16,309.55**		**-6.2**	**11,061.32**		**-0.7**
Apr	9,048.98	-0.3	-2.2	15,928.80	2.4	-4.0	10,798.67	2.4	1.7
May	9,029.45	0.2	-2.0	16,513.01	-3.5	-7.4	11,039.84	-2.2	-0.5
Jun	9,046.54	-0.2	-2.1	16,454.78	0.4	-7.0	10,943.53	0.9	0.4
Mid-year	**9,046.54**		**-2.1**	**16,454.78**		**-7.0**	**10,943.53**		**0.4**
2005									
Jan	9,049.59	0.0	0.0	17,041.78	2.2	2.2	11,834.21	4.0	4.0
Feb	9,057.95	-0.1	-0.1	17,300.63	-1.5	0.6	11,985.91	-1.3	2.7
Mar	9,075.45	-0.2	-0.3	17,135.36	1.0	1.6	11,817.22	1.4	4.2
Q1	**9,075.45**		**-0.3**	**17,135.36**		**1.6**	**11,817.22**		**4.2**
Apr	9,080.94	-0.1	-0.3	17,297.17	-0.9	0.7	11,823.48	-0.1	4.1
May	9,066.06	0.2	-0.2	16,586.19	4.3	5.0	11,272.97	4.9	9.2
Jun	9,074.91	-0.1	-0.3	16,457.80	0.8	5.8	10,952.73	2.9	12.4
Mid-year	**9,074.91**		**-0.3**	**16,457.80**		**5.8**	**10,952.73**		**12.4**

Depreciation (-)/Appreciation (+)
Source: Economist

Chart 36: Interbank Exchange Rate (Dec 2003 – June 2005)



ii. Forex Bureau Market

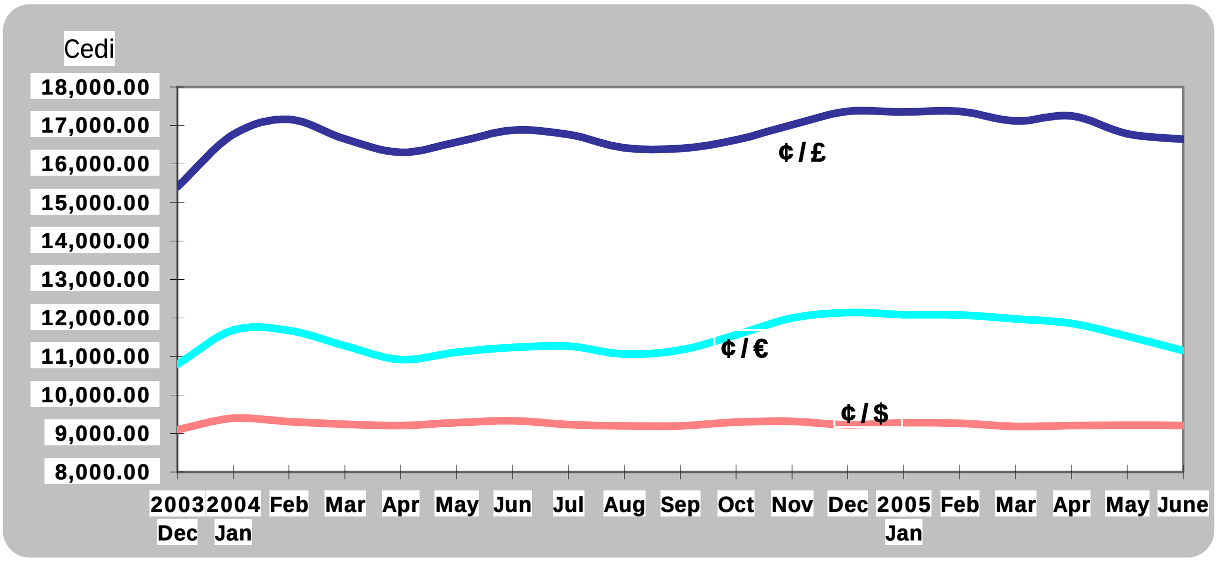
The cedi appreciated against all the major currencies in the forex bureau market. It appreciated by 0.2 per cent, 4.4 per cent and 8.9 per cent respectively against the US dollar, the pound sterling and the euro.

Table 22: Forex Bureau Exchange Rate Movements

End Period	¢/US$	Monthly	Year-to-Date	¢/£	Monthly	Year-to-Date	¢/€	Monthly	Year-to-Date
2002	8,681.82	-0.7	-15.7	13,345.46	-0.3	-22.4	8,600.00	-0.2	-26.2
2003	9,097.73	0.1	-4.6	15,402.28	-0.9	-13.4	10,797.73	-1.9	-20.4
2004									
Jan	9,405.91	-3.3	-0.3	16,768.18	-8.1	-8.1	11,686.37	-7.6	-7.6
Feb	9,305.91	1.1	-2.2	17,159.09	-2.3	-10.2	11,676.36	0.1	-7.5
Mar	9,235.46	0.8	-1.5	16,650.00	3.1	-7.5	11,277.27	3.5	-4.3
Q1	**9,235.46**		**-1.5**	**16,650.00**		**-7.5**	**11,277.27**		**-4.3**
Apr	9,207.73	0.3	-1.2	16,303.19	2.1	-5.5	10,918.14	3.3	-1.1
May	9,283.18	-0.8	-2.0	16,568.18	-1.6	-7.0	11,113.64	-1.8	-2.8
Jun	9,335.00	-0.6	-2.5	16,879.55	-1.8	-8.8	11,236.37	-1.1	-3.9
Mid-year	**9,335.00**		**-2.5**	**16,879.55**		**-8.8**	**11,236.37**		**-3.9**
2005									
Jan	9,049.59	-0.6	-0.6	17,350.00	0.1	0.1	12,086.37	0.5	0.5
Feb	9,057.95	0.1	-0.5	17,363.64	-0.1	0.0	12,075.00	0.1	0.6
Mar	9,075.45	0.1	0.5	17,120.46	1.4	1.4	11,979.55	0.8	1.4
Q1	**9,179.09**		**0.5**	**17,120.46**		**1.4**	**11,979.55**		**4.2**
Apr	9,206.82	-0.3	0.2	17,250.00	-0.8	0.7	11,859.09	1.0	2.4
May	9,212.73	-0.1	0.1	16,786.37	2.8	3.5	11,525.00	2.9	5.4
Jun	9,203.64	0.1	0.2	16,640.91	0.9	4.4	11,154.55	3.3	8.9
Mid-year	**9,203.64**		**0.2**	**16,640.91**		**4.4**	**11,154.55**		**8.9**

Depreciation(-)/Appreciation(+)
Source: Economist

Chart 37: Forex Bureaux Exchange Rate (Dec 2003 – June 2005)



iii. Volume of Transaction

There was considerable expansion in the level of activity in the foreign exchange market during the half year as the volume of transaction further increased. The volume of transactions for the half year under review totaled US$3,021.23 million compared with US$2,133.0 million recorded for the corresponding period in 2004 indicating 41.64 per cent expansion in the level of activity.

The expansion in the level of activity emanated from increases in both the inter-bank and the forex bureau markets with much of the expansion occurring in the inter-bank market. While the inter-bank market recorded 45.05 per cent increase in the volume of transaction from US$1,884.64million in 2004 to US$2,733.61 million in

2005, there was 15.83 per cent increase in the forex bureau market from US$248.35 million to US$287.67 million.

Table 23: VOLUME OF TRANSACTION IN THE FOREIGN EXCHANGE MARKET (US$'million)

Period	2004					2005					%Change on Total
	Purchases		Sales		Total	Purchases		Sales		Total	
	Inter-bank	F. Bureau	Inter-bank	F. Bureau	Volume	Inter-bank	F. Bureau	Inter-bank	F. Bureau	Volume	05/'04
Jan	149.03	20.12	139.44	20.01	328.6	202.79	23.80	250.47	23.51	500.47	52.33
Feb	148	18.12	152.27	18.1	336.48	220.61	21.96	244.42	21.92	508.73	51.24
Mar	177.08	22.92	153.98	22.93	376.91	210.49	24.09	209.61	23.98	467.83	24.21
Q1	**474.11**	**61.16**	**445.69**	**61.03**	**1,042.00**	**633.89**	**69.85**	**704.5**	**69.41**	**1,477.03**	**41.81**
Apr	149.44	20.99	146.46	21.04	337.93	216.48	24.41	229.78	24.39	495.06	46.50
May	147.16	20.43	159.88	20.44	347.91	216.92	24.10	239.71	24.29	505.02	45.02
Jun	178.7	21.65	183.2	21.6	405.15	211.46	25.53*	280.87	25.65*	543.51	34.15
Q2	**475.3**	**63.07**	**489.54**	**63.09**	**1,091.00**	**644.87**	**74.04**	**750.35**	**74.33**	**1,543.59**	**41.48**
Mid-Year	**949.41**	**124.23**	**935.23**	**124.12**	**2,133.00**	**1,278.76**	**143.89**	**1,454.85**	**143.74**	**3,021.23**	**41.64**

*Provisional

Chart 38: Inter-bank Purchases & Sales (Jan 2004 – June 2005)

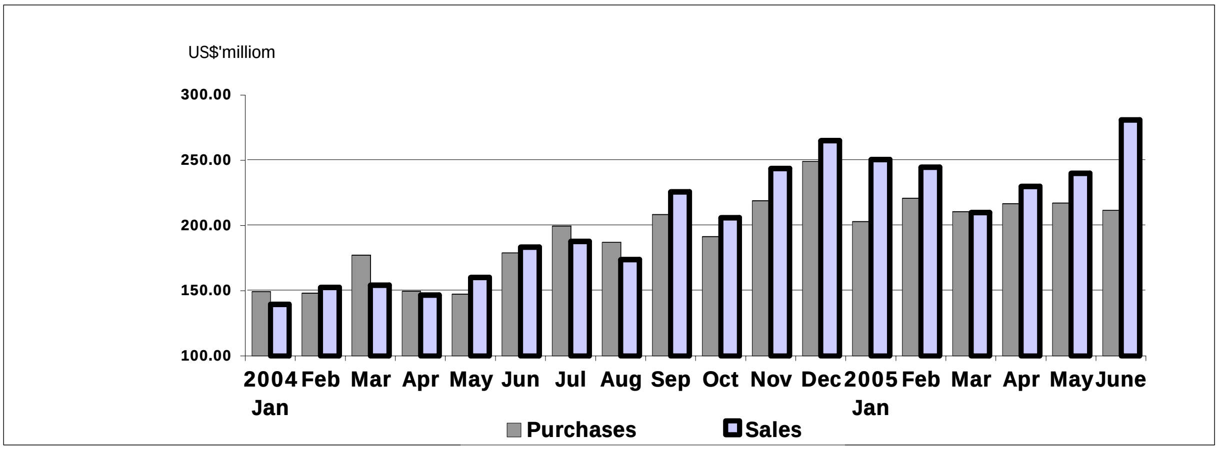
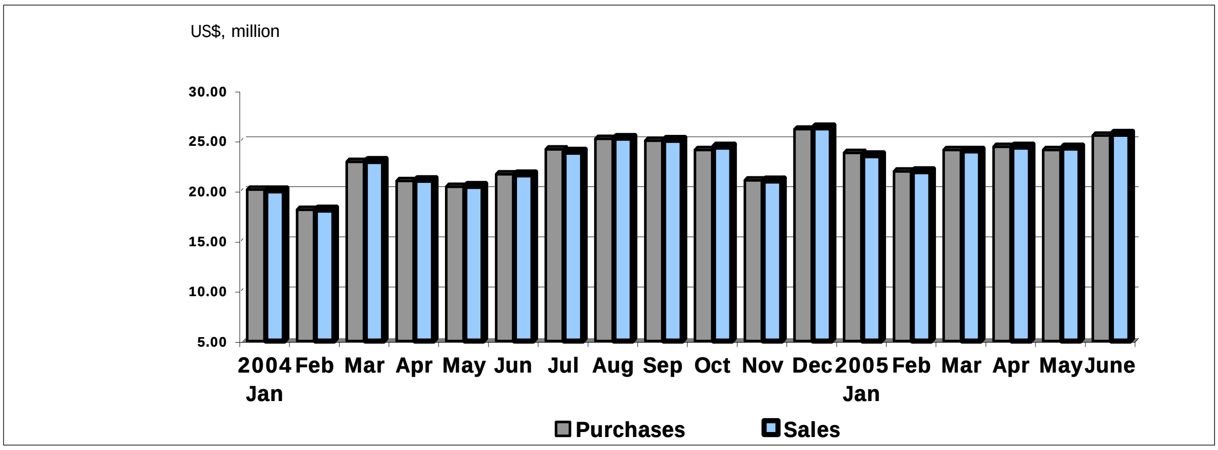


Chart 39 : Forex Bureau Purchases & Sales (Jan 2004 – June 2005)



Outlook

On the international market the US dollar is expected to continue to enjoy goodwill among investors on account of attractiveness of US dollar denominated assets. The outlook of the euro on the other hand looks bleak as the crisis in the EU looms. The other major currencies are expected to enjoy some level of stability.

On the domestic market the continued prudent monetary and fiscal policies by the Bank of Ghana and the Government in the third quarter, coupled with expected higher inflows during the quarter, the cedi is expected to remain stable.

G. EXTERNAL SECTOR DEVELOPMENTS

Balance of Payments

The recent rise in crude oil prices to the US$60/barrel mark put the balance of payments under some pressure in the review period. Preliminary estimates of the balance of payments in the half–year of 2005 indicated that the current account recorded a deficit, compared with a surplus position a year ago.

Table 24: Balance of Payments

ITEMS	2002 Annual	2003 Annual	2004-H1	2004 Annual	2005-H1**
Merchandise Exports	**2,015.19**	**2,562.39**	**1,386.69**	**2,784.64**	**1,640.96**
of which:					
Cocoa	474.42	817.73	585.67	1,071.14	500.44
Gold	689.08	830.13	425.28	840.21	455.52
Timber	182.72	174.74	99.82	211.71	114.48
Others	668.98	739.79	275.92	661.59	570.52
Merchandise Imports	**-2,707.02**	**-3,232.82**	**-2,036.48**	**-4,297.28**	**-2,688.83**
of which:					
Non-Oil	-2,197.00	-2,669.88	-1,708.47	-3,522.31	-2,294.42
Oil	-510.02	-562.94	-328.02	-774.97	-394.41
Trade Balance	**-691.83**	**-670.43**	**-649.8**	**-1,512.63**	**-1,047.87**
Services (net)	-66.01	-269.78	-144.86	-356.17	-3.22
Income (net)	-174.2961	-156.66	-95.58	-197.84	-147.83
Transfers (net)	**900.2**	**1399.199**	**970.69**	**1830.98**	**766.68**
of which:					
Official	220.2	382.01	243.47	543.93	192.31
Private	680	1,017.19	727.22	1,287.05	574.36
	-31.94	302.33	80.45	-235.66	-432.24
Current Account	**-31.94**	**302.33**	**80.45**	**-235.66**	**-432.24**
Financial Account	**-38.62**	**75.15**	**-143.92**	**201.57**	**-231.87**
Direct Investment	58.93	110.02	42.52	139.27	55.3
Other Investment:	-97.55	-34.869	-186.437	62.303	-287.172
of which:					
Official	-115.18	85.77	-33.1	52.45	-69.58
Private	17.63	144.56	-153.34	9.85	-217.59
Net Errors and Omissions	110.36	-84.37	-160.89	23.63	378.82
Overall Balance	**39.8**	**558.31**	**-224.36**	**-10.46**	**-285.29**
Changes In Official Short-Term Position	**-39.8**	**-558.31**	**224.36**	**10.46**	**285.29**

Note: H1 refers to half the year, Jan-June.
** Provisional

The Current Account

The current account recorded a deficit of US$432.24 million, compared to a small surplus of US$80.45 million recorded a year ago. The swing in the current account position was mostly reflected in the merchandise trade account where imports growth was very strong, recording a year-on-year growth rate of about 32 per cent while exports was estimated to have grown by 18 per cent. The swing in the current account balance was also explained in part by the narrower surplus recorded on the services, income and transfers account in the period.

The services, income and transfers account was also estimated to have recorded a narrower surplus of US$615.63 million in the current period, compared with a surplus of US$730.25 million in the same period a year ago.

Merchandise Trade Account

Exports

Receipts from merchandise exports in the review period were estimated at US$1,640.96 million; of which US$500.44 million was attributed to cocoa beans and products exports, US$455.52 million to gold, Timber exports accounted for US$114.48 million, while other exports, including non-traditional exports accounted for US$570.52 million. In the corresponding period of the previous year, these commodities, accounted for revenues of US$585.67 million, US$425.28 million, US$99.82 million, and US$275.92 million respectively.

The decline in the value of **cocoa beans** exports was on account of both volume and price effects. Export volumes declined from 313,499 tonnes in the first half of 2004 to 296,163 tonnes in the review period, while prices also went down from US$1,716.11 per tonne to US$1,626.24 per tonne, indicating a 32 per cent fall in value and a 5 per cent fall in prices. Industry analysts attribute the fall in quantity to climatic conditions, while the fall in price was blamed on technical factors in the international commodities markets.

Provisional figures indicate **cocoa products** exporters failed to take advantage of higher international prices by recording very low export volumes. Volume exported during the review period was 9,100 tonnes, compared 18,405 tonnes in the half-year of 2004. Prices on the other hand were at an average level of US$2,529.84 per tonne compared with a level of US$2,030.63 a year ago.

Gold exports in the review period performed better than the corresponding period of the previous year, largely on account of increase in prices. Volume exported remained somewhat flat, compared with the corresponding period of 2004. However, a 6.6 per cent rise in the price relative to the corresponding period of the previous year, impacted positively on the value of exports as the value of gold exports went up by US$40.32 million or 9.5 per cent.

Cocoa and gold continue to dominate exports in Ghana. Provisional statistics for the half-year, however, indicate that this dominance has weakened slightly. During this period, gold and cocoa exports accounted for about 62.5 per cent of total merchandise export revenues, down from about 72.9 per cent recorded one year ago. Provisional estimates of earnings from timber and timber products of US$114.48 million was about US$14.66 million or 15 per cent higher than US$99.82 million that was recorded a year ago. This was on account of both price and quantity effects. The export volume went up by 126,817 metric tonnes while prices also increased by about US$39.14 per metric tonne, relative to the corresponding period of the previous year.

Provisional data shows that exports other than cocoa, gold and timber fetched the economy a value of US$570.52 million compared with US$275.92 million in the corresponding period of 2004.

Imports

The total import bill for the half-year ending June 30, 2004 is estimated at US$2,688.83 million, indicating a year-on-year growth of about 34 per cent when compared to estimates in the corresponding period of the previous year. Of the total import bill, US$344.07 million or 15 per cent was for the procurement of crude oil and related products.

The value of total oil imports (crude and refined products) for the half-year was estimated at US$394.41 million, compared with US$328.02 million in the corresponding period of the previous year. Of this, the value of crude oil imports was US$344.07 million compared with US$247.57 million recorded a year ago. The volume of crude oil imported was, however lower at 6.8 million barrels compared with 7.2 million barrels in the previous year. The implicit average price of crude oil was US$50.44 per barrel in the half-year 2005 compared with US$34.41 per barrel in the corresponding period of the previous year, indicating a year-on-year price increase of 47 per cent.

Very little finished oil products were imported into the country in the review period. These were remnants of the tendering process in year 2004. In the review year, as a result of restructuring of the marketing of oil, the tendering process for the importation of finished oil products was delayed. Consequently only oil products of value US$50.34 million were recorded in the review period, compared with US$80.46 million in the half year of 2004

Non-oil imports in the review period were estimated at US$2,294.42 million, higher than US$1,708.47 million recorded in the first half-year in 2004.

The Services, Income and Transfers Account.

The Services, Income and Transfers account deteriorated over the period from a surplus of US$730.25 million in the half-year 2004 to US$416.72 million in the review period. Travel and Unrequited transfers were the principal sources of inflows into the account. The travel account remained in surplus and improved from US$153.88 million in half-year 2004 to US$195.00 million in the review period.

The unrequited transfers account however deteriorated, recording a net surplus of US$766.68 million compared with US$970.69 million in the same period in the previous year. The deterioration in the net transfers account is explained by the fact that some of the grants that were pledged by donors for the period were not disbursed.

The Financial Account

The balance on the financial account widened from US$147.92 million in the half-year of 2004 to US$231.87 million in the review period. Official loan amortization was higher in the review period, while disbursements were significantly lower compared with the corresponding period of 2004. Consequently a wider deficit of US$69.58 million on the financial account of the official sector was recorded in the first half year of 2005 compared with a deficit of US$33.10 million in the corresponding period of the period of 2004.

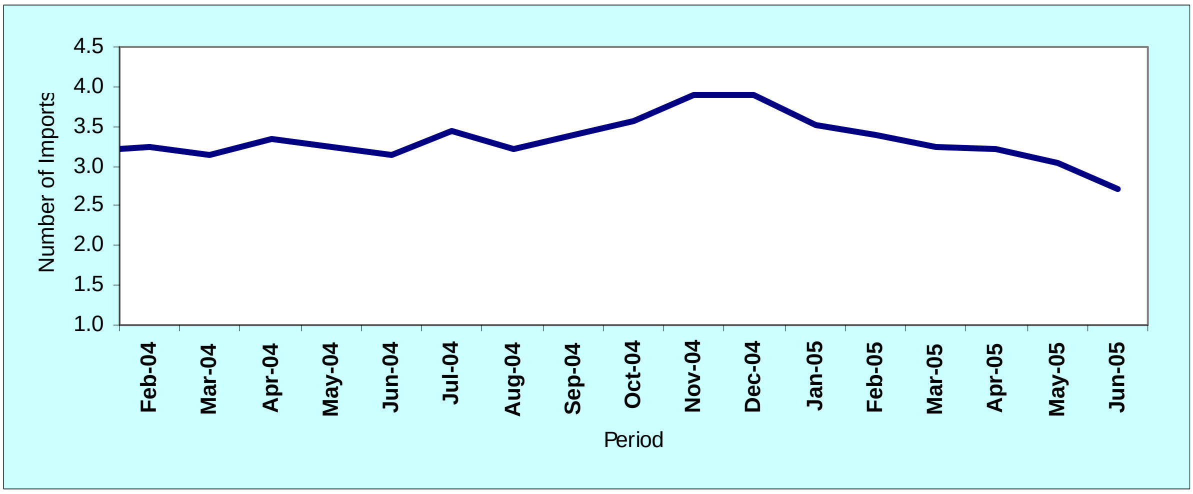
The greatest impact on the financial account came from the private sector where outflows on ‘other investments’ account were significantly higher than inflows, thus moving the deficit on the private sector other investment account from US$153.34 million in the half-year of 2004 to US$217.59 million in the review period. Of the private sector inflows, direct investment for the review period was estimated at US$55.30 million, compared with an inflow of US$42.52 million.

The balance on the financial account was less than enough to finance the deficit on the current account, resulting in an overall balance of payments deficit of US$285.29 million for the review period. In the corresponding period of 2004, the overall balance of payments recorded a deficit of US$224.36 million.

International Reserves

Developments in the balance of payments were reflected in the movements in the reserves account. There was a significant drawdown of reserves in the period under review. On a net basis, international reserves fell by US$156.49 million in the review period compared with US$143.02 million in the corresponding period of the previous year. On a gross basis, international reserves went down by US$263.86 million in the review period to a stock level of US$1,469.06 million at the end of June 2005. At this level the gross reserves were enough to provide cover for about 2.7 months of imports of goods and services.

Chart 40:Import cover of Gross International Reserves (in months)



H. EXTERNAL DEBT

DEVELOPMENTS IN EXTERNAL DEBT

The G-8 finance ministers announced on June 11, 2005, a proposal that could lead to 100 per cent cancellation of outstanding debt of HIPCs, including Ghana, owed to the IMF, World Bank and African Development Bank.

Ghana's outstanding debt obligations to the three multilateral institutions at the end of June 2005 was estimated at US$5,153.20 million representing about 81.7 per cent of the total external debt. If the debt cancellation applies to all outstanding debt to these institutions, it would lead to a reduction in the external debt stock from the current level of US$6,307.12 million to US$1,153.92 million.

Ghana has also signed bilateral debt relief agreements with Sweden and the USA resulting in debt cancellation of US$20.34 million and US$4.6 million respectively by the two countries during the first half of this year.

Debt Stock

Ghana's total external debt (including obligations to the IMF) in the first half of 2005 declined by US$60.81 million to US$6,307.12 million at the end of June 2005. The source of the decrease was the net result of decreases in the short-term and medium-term debt and an increase in long-term debt.

Short-term debt decreased by US$186.75 million to US$143.25 million due to repayments made on the Trade Finance Facility for the 2004/2005 cocoa season.
The medium-term debt also decreased by US$27.74 million to US$695.07 million.

Long-term debt, on the other hand, increased by US$153.69 million from US$5,315.12 million in December 2004 to US$5,468.81 million at the end of June 2005.

Government debt service through Bank of Ghana (excluding obligations to the IMF) in June 2005 totalled US$17.33 million. This payment, the highest monthly debt service this year, showed an increase of US$0.78 million over the amount paid during the same period in 2004.

On a cumulative basis, debt service from January to June 2005 amounted to US$71.66 million as compared with US$62.64 million paid in June 2004. The total payments in the first half of the year were made up of US$45.84 million and US$25.82 million as principal and interest respectively. This was made to the various creditors as follows:

	US$ m
• Multilateral creditors	33.55
• Paris Club	23.37
• Non-Paris Club	3.50
• Commercial	11.23

Trade Finance Facility
As at the end of June 2005, US$356.75 million of the US$500.00 million cocoa facility had been repaid. The balance outstanding on this at the end of the half year was US$143.25 million.

HIPC Relief

Debt relief credited to the HIPC Special Account in June 2005 was US$49.0 million. This amount was the highest during the first six months of the year, and was as a result of spill-over from previous months. The relief was from multilateral creditors (US$8.2 million) and Paris Club creditors (US$40.8 million). The total amount credited to this account from January-June 2005 therefore amounted to US$94.0 million representing fifty-two per cent of expected relief during the period. The amount paid into the account in corresponding period of 2004 was US$90.38 million

OUT LOOK:

Ghana's external debt stock is expected to reduce significantly when the impending debt cancellation by the IMF, IDA and ADB materialises.

Chart 41:Debt service Indicators