



Infrastructure development to support growth

The transport sector plays a key role in economic development. In West Africa, the sector generates about 6% of GDP. However, inefficiency prevails due to the high cost of vehicle operation on poor roads. Furthermore, transport and transit costs for landlocked countries such as Mali, Burkina Faso and Niger are up to 50% higher than for countries with direct access to the sea. These high transport and transit costs translate into high prices of goods to consumers and loss of external competitiveness. In Ghana, roads are the predominant mode of transport accounting for about 94% of freight and 97% of passenger traffic movements. The sub-sector is the most viable alternative except for rail to transport bulk commodities like manganese, bauxite, timber and cocoa. The railway network operates at limited capacity with low efficiency.

To address impediments in the transport sector and in support of the New Partnership for Africa's Development (NEPAD) transport agenda of trade corridors without borders and barriers, which aims to facilitate trade and promote economic integration in West Africa, the World Bank approved a US\$190 million regional operation to finance transport and transit improvements in Burkina Faso, Ghana and Mali.

The West Africa Transport and Transit Facilitation Project aims to improve access by Burkina Faso and Mali to Ghanaian ports as well as improve port operations and facilitate the efficient movement of traffic along the Tema - Ouagadougou - Bamako transport corridor.

The three-country project also aims to support the implementation of the first phase (Road Program I) of the Community Action Plan for Road Infrastructure and Transport (PACITR - Programme d'Actions Communautaire des Infrastructures et du Transport) West Africa Economic and Monetary Union (WAEMU). The PACITR/WAEMU Road Program I is part of a multi-donor effort in the West Africa sub-region to improve transport infrastructure and facilitate trade, transport and transit, funded by the African Development Bank, the European Union and the West African Development Bank (Banque Ouest Africaine de Développement) as well as the three governments.

The Transport and Transit Facilitation Project is consistent with the objectives of the World Bank's Regional Integration Assistance Strategy (RIAS) for West Africa which focuses on the creation of an open, unified, regional economic space, as a means of creating an environment for a more competitive and efficient private sector. The financing package consists of three International Development Association (IDA) credits of US\$70 million to Burkina Faso, US\$80 million to Ghana and US\$40 million to Mali.

In Ghana, the components of the project include the rehabilitation of the 103km Buipe-Tamale road, the construction of major rest stops along the Tema-Paga road corridor, procurement of ICT equipment to fully equip two transit checkpoints and rest-stop areas, and the construction of a transit truck village along the port of Tema.

The project is expected to strengthen economic integration of the member countries of the WAEMU/ECOWAS bloc. It will also help remove barriers to intra-regional trade and contribute to increased trade within the sub-region, and between the sub-region and the rest of the world. This project recognises the need for regional approaches in a part of Africa where landlocked economies are disadvantaged by costly and unreliable transport, transit and trade processes. As a result, we should see more reliable services, lower general transport costs and improved road infrastructure sections along the corridor to better integrate Burkina Faso and Mali to Ghana's ports and improved inter-state road movement of goods along the corridor.



Economic structure and developments

The year 2007 marked Ghana's seventh consecutive year of accelerating real GDP growth and the fourth straight year of growth of 5% or better. Even though growth slipped below the government's target of 6.5% because of slightly disappointing cocoa output, severe energy shortages and high international crude oil prices, the economy maintained solid performance with real GDP growing by an estimated 6.2%.

The agriculture sector grew by 4.3%, against the target of 6.1% due to the erratic rainfall patterns which swept the northern part of the country. Electricity crises hampered growth in the industrial as well as the construction sectors. Growth in the industrial sector declined from the 2006 rate of 9.5% to 7.4%. Notwithstanding a marginal decline in the construction sector from 8.2% in 2006, growth in cement production remained upward. Production of cement, a major input in construction, rose by 16.4% to 576 313.82 tonnes in the third quarter of 2007.

The services sector, which is not so dependent on electricity, exceeded its 6.7% target and grew at 8.2%. Total mineral revenue increased by 26.29%, earning US\$1.79 billion, up from US\$1.42 billion in 2006. Gold revenue increased from US\$1.33 billion to US\$1.71 billion on the back of rising gold prices and increased production. The mining and quarrying sub-sectors grew by 30% while the total industry grew by 7.4%.

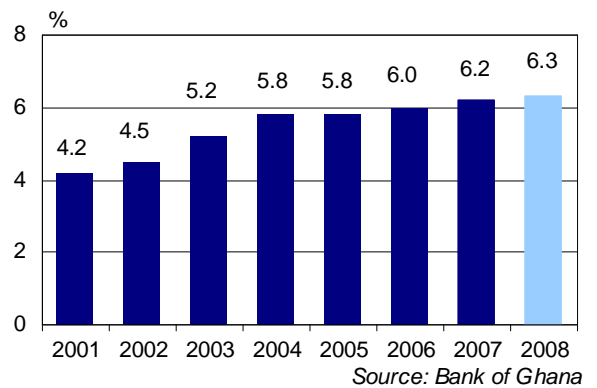
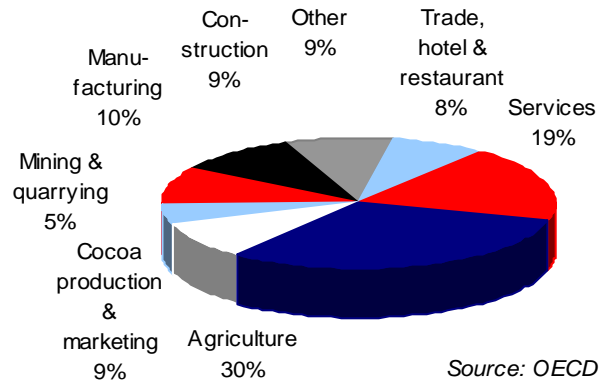
Looking ahead, we expect growth to remain strong and well above 6%. Agriculture, the largest sector accounting for 40% of GDP (30% excluding the cocoa sector), will continue to benefit from relatively strong prices and improvements in supply capacity, mainly as a result of better cropping techniques and effective disease and pest control programmes. An increase in cocoa-processing capacity - as the government's reform of the sector continues to bear fruit - is also likely to lift growth in the agro-processing sector. The new factory opened by cocoa processor Cargill at the end of last year, is expected to produce cocoa butter, liquor and powder. A statement from Cocobod confirms that capacity for the plant will initially be 60 000 tonnes but has the potential to increase to 120 000 tonnes.

In the first quarter of 2008, marginal growth in gold output and a rise in the price of gold saw revenue from minerals reaching US\$577.9 million, a 17% increase from US\$493 million registered in the last quarter of 2007. This trend is expected to continue as new investments in mining will raise output and increase the sector's importance, currently contributing 5% to GDP. Newmont Mining expects a 9.6% increase in gold production this year from its Ahafo mine with production forecast at 500 000 ounces, up from 456 000 ounces last year.

Construction, driven by donor- and government-funded infrastructure projects - targeted at improving the country's infrastructure, should post robust growth, particularly since the energy supply interruptions have reduced. Services, which grew by 8.2% y/y in 2007 - the highest growth rate in six years - will remain strong with tourism set to have benefited from the Africa Cup of Nations football tournament hosted in Ghana at the beginning of the year and robust domestic activity.

In the longer term the discovery in mid-2007 of commercially viable quantities of oil will not only be a major boost to energy security to the country, but could significantly increase economic growth once extraction begins. Production is expected to come online between 2009 and 2011.

CONTRIBUTION TO GDP and REAL GDP GROWTH





Monetary policy

In May 2007, Ghana formally adopted an inflation-targeting framework for its monetary policy (medium-term target of 5%), announcing price stability as the central bank's primary objective. The inflation objective is pursued by controlling the amount of reserve money, with broad money supply (M2+) as the intermediate target.

In March 2008, M2+ increased by 39.2% y/y, against 35.9% y/y recorded in the same period last year. The growth in M2+ has mainly been supported by expansion of net domestic assets of the banking system, underpinned by continued strong expansion of credit to the private sector.

Claims by the banking system on the private sector grew significantly by 57.4% y/y compared to 47.1% at the end of March 2007. Annual growth in net foreign assets of the banking system supported by net foreign assets of the Bank of Ghana was 18.3% higher compared to a decline of 7.7% during the same period in 2007.

Credit to the private sector and public institutions continued its strong growth into the first quarter of 2008 on the back of gradual bank rate cuts between mid-2003 and November 2007 as well as the abolition of secondary reserve requirements for banks alongside the significant structural changes within the banking system in 2006.

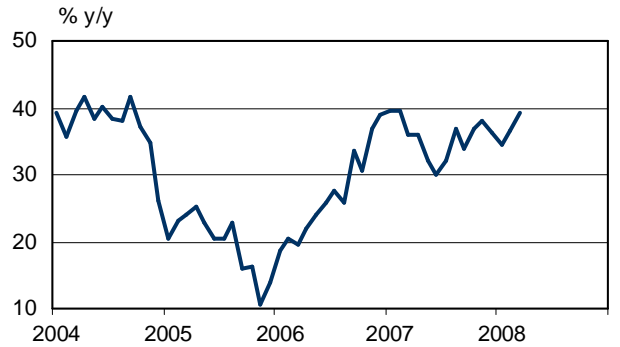
Distribution of credit flow to the private sector continues to be broad-based. Private sector credit over the 12 months to March 2008 rose by GH¢1 308.2 million (58.1%) following GH¢810.0 million (56.2%) during the same period in 2007. Increases in credit to services (33.9%), commerce and finance (17.9%), miscellaneous (16.1%), construction (9.3%), manufacturing (5.6%) and transportation, storage and communication (5.4%), together accounted for 88% of the credit flow over the period. The remaining sectors recorded increases of between 1% and 4.9%. Multilateral advisers have confirmed that the quality of loans has not deteriorated, and the rapid growth in credit does not pose a substantial risk to the economy.

Persistent high global food and crude oil prices, erratic food supply as well as increases of close to 100% in utility tariffs in the energy sector in November 2007 resulted in a continued increase in consumer inflation, from a historical low of 9.5% y/y in March 2006, to 12.7% y/y by the end of 2007 and an average of 10.5% for the year.

Latest figures released by the Ghana Statistical Service show that in April 2008 inflation recorded 15.3% y/y and in May had risen to a three-year high of 16.9% y/y. The trend has been driven by a combination of high global food prices and transportation costs as well as local food supply shortages. Food items, predominantly fish, bread and cereals, increased by 7.2% m/m, while non-food items, including transport, increased by 9.7% m/m.

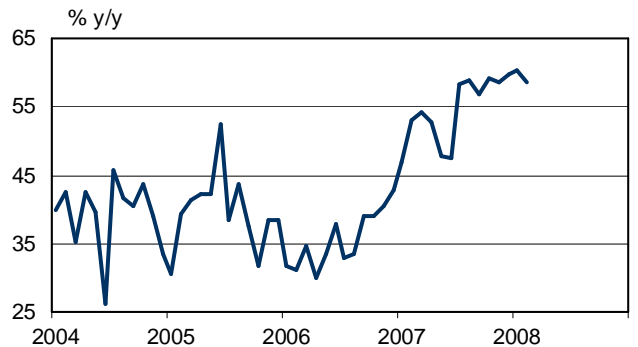
To address soaring global prices, government eliminated import duties on staple food products and some fuel types in May. Further relief from food inflation may come when the 2008/09 harvest season begins in August.

MONEY SUPPLY GROWTH



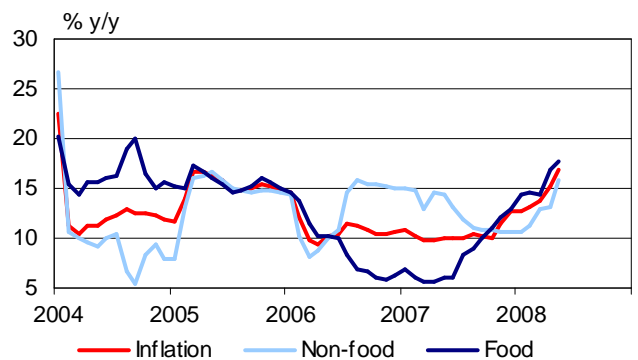
Source: Bank of Ghana

PRIVATE SECTOR CREDIT



Source: Bank of Ghana

INFLATION



Source: Bank of Ghana



However, the outlook for inflation remains largely subject to development in crude oil prices on the international market, which show no signs of relenting in the near future. Other inflationary pressures include public-sector wage negotiations in the run-up to the elections and a second wave of price pressures as a result of increases in electricity tariffs.

In response to inflationary pressures, the Bank of Ghana's Monetary Policy Committee (MPC) raised the central bank interest rate – the prime rate - from 13.5% to 14.25% in March 2008 and again in May 2008 by 175 basis points to 16% (cumulative increase of 250 basis points in the year). Following the MPC's rate decision, average commercial bank lending rates were similarly revised upwards within a range of 22% to 41%.

The Bank of Ghana (BOG) is becoming increasingly concerned over the gap between its policy rate (prime) and those of commercial banks and other deposit taking and lending institutions. The commercial bank rates continue to show high spreads between deposit and lending rates and are also well above the BOG's prime rate. To this end, the BoG has decided to publish the average interest paid on deposits and charged on loans by commercial banks and non-bank financial institutions – first, to see the spread between interest charged on loans and earned on deposits and second to see the impact of hikes on inflation and revisions in the BOG prime rate.

The publication of this information will increase transparency within the sector, which would force financial institutions to compete, allow consumers to act according to their interests and thereby increase the reach and efficiency of financial services.

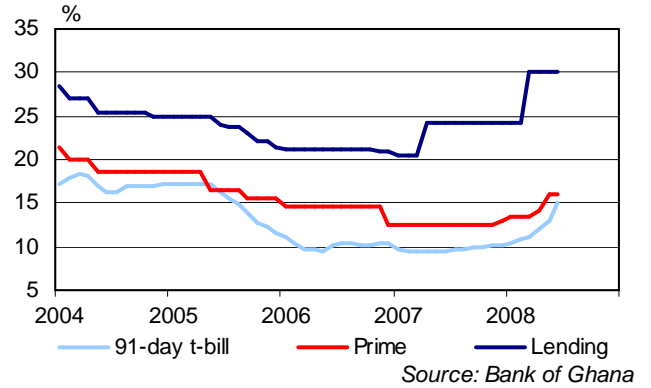
Further monetary tightening might be necessary in the presence of strong demand and inflationary pressures.

Previously, the BoG used cedi stability as an anchor to bring down inflation. As part of its reform programmes, Ghana liberalised its exchange rate system and now has a managed float exchange rate regime. Under the managed float, intervention in the foreign exchange market is limited to short-term smoothing and achievement of the international reserves objective.

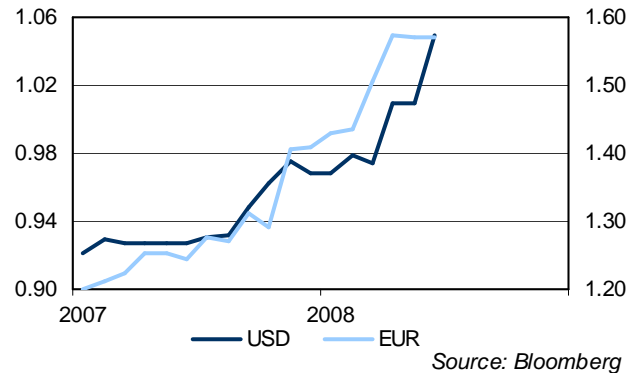
The cedi lost some ground during 2007 and depreciated by 5%, 7% and 17.5% against the US dollar, the pound sterling and the euro respectively. Demand pressures were exerted mainly from the golden jubilee anniversary celebration, preparations for hosting the AU summit and the continued energy crisis. In addition to this, lower cocoa production, as a result of extreme rainfall, led to a 33.8% decline in earnings from exports of cocoa beans and products.

Despite strong international prices for gold and cocoa, the national currency continued to depreciate marginally against all major currencies in the first semester of this year. The trend has mainly been pushed by a large and burgeoning current account deficit stemming from capital goods and oil imports. The cedi averaged GHc0.9688/USD in January, GHc0.9785/USD in February, GHc0.9754/USD in March, GHc1.01/USD in April and May and GHc1.09/USD in June.

INTEREST RATES



EXCHANGE RATES



In July 2007 the BoG redenominated the cedi, with one new cedi equivalent to 10 000 cedi.



High demand for capital imports as well as high oil prices are likely to lead to continued depreciation of the cedi - Ghana's oil import bill has risen from US\$500 million in 2005 to US\$2.1 billion in 2007, and is expected to reach US\$2.5 billion this year. Dollar weakness could serve to slow cedi depreciation against the US dollar. Given Ghana's high dependence on commodity exports and its structural higher demand for foreign exchange than supply, the cedi remains vulnerable to external shocks.

Government finances

Demand pressures from a rising fiscal deficit combined with robust private sector growth have led to increasing fiscal and external current account deficits, downward pressure on the exchange rate and in combination with energy and food price shocks, a pick up in inflation. The fiscal deficit reached about 9% of GDP in 2007, reflecting in part the impact of world oil price increases and necessary investments to address energy supply bottlenecks, as well as a higher-than-budgeted wage bill, infrastructure outlays and rising price subsidies for utilities. Strong private sector lending - an otherwise positive development - added to demand. These trends have continued through the first quarter of 2008.

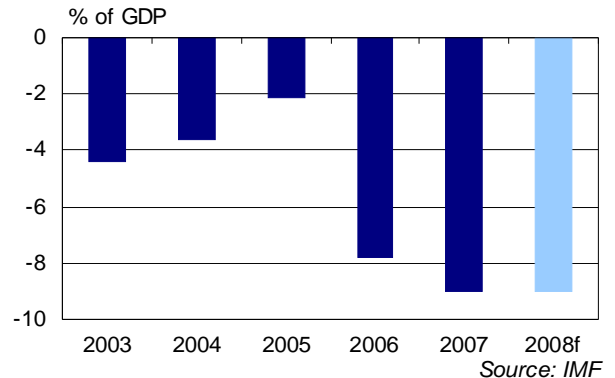
Total revenue and grants for the year to April amounted to GH¢1 505.28 million (9.2% of GDP), compared with GH¢1 436.71 million (10.3% of GDP) for the same period in 2007. Total expenditure for the first four months of 2008 amounted to GH¢1 964.19 million (12.1% of GDP). This level of spending compares with GH¢1 536.4 million (11% of GDP) recorded in the same period in 2007 and a 2008 budget target of GH¢5 109.3 million. The total includes an estimated GH¢200.8 million outlay on the energy infrastructure financed by sovereign bond proceeds.

The wage bill (including pensions and gratuities, and other wage-related expenditure) - on account of payments for teachers and judiciary service staff- amounted to GH¢549.08 million (3.37% of GDP) as against GH¢338.33 million (2.42% of GDP) recorded for the same period in 2007. This is 62.3% above the level for the same period in 2007 and about 31.46% of the 2008 budget appropriations. As a result, the narrow fiscal deficit widened to GH¢479.54 million (2.94% of GDP) compared to GH¢125.97 million (0.9% of GDP) for the same period in 2007.

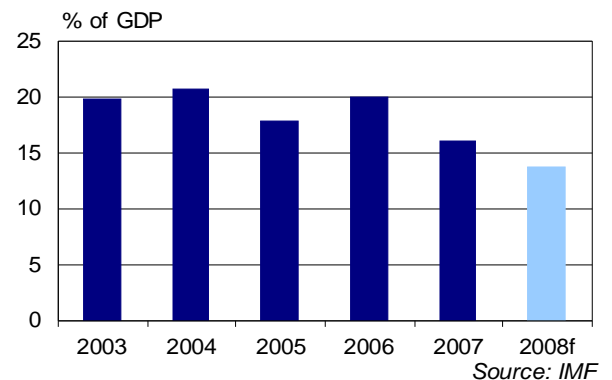
In response to the deteriorating fiscal balance, and against the backdrop of high world market oil prices and continued delays in starting deliveries through the West African Gas Pipeline, the authorities introduced a substantial reduction in electricity price subsidies for mining companies in the country. As of 1 July 2008, mining companies are subject to a US\$0.22 per kilowatt hour tariff instead of the former US\$0.11. The government also announced its intention to eliminate subsidies for non-residential users by bringing utility prices to cost-recovery levels as of 1 May 2008.

Concerns over rising inflation have taken priority over other areas of policy. In the short term the government has eliminated import duties on a number of basic food and fuel types - which will impinge on its coffers - and these exemptions are unlikely to be removed until after the December 2008 elections. At the same time, the Fair Wages and Salaries Commission is due to release its report in the second half of 2008. The report is likely to call for wage increases, which will pose further challenges to the government's fiscal plans.

OVERALL BALANCE (EXCL. GRANTS)



PUBLIC DOMESTIC





Summary indicators

	2003	2004	2005	2006	2007e	2008e
Balance of payments (US\$ million)						
Exports	2 471	2 785	2 803	3 680	3 680	
Imports	-3 259	-4 297	-5 345	-6 523	-7 692	
Trade balance	-788	-1,512	-2 542	-2 843	-3 711	
Services	-280	-554	-329	-392	-215	
Private transfers	801	1,287	1 550	1 788	2 143	
Official transfers	393	544	567	393	495	
Current account	127	-235	-754	-1054	-1 287	
Official capital	86	53	309	735	659	
Private capital	75	332	559	717	851	
Capital account	161	385	868	1 452	1 510	
Other	218	-159				
Overall balance	506	-13	309	537	242	
Debt deferral	-35	-35	0	0	0	
Net international reserves (- is an increase)	-679	-184	-309	-537	-242	
of which: IMF credit	53	-5	0	-265	0	
Exceptional financing	208	231	0	0	0	
Financing	-506	13	-309	-537	-242	
Government finances (cedi billion)						
Tax revenue	13 743	18 994	23 156	25 569	31 143	36 121
Non-tax revenue						
Grants	3 119	5 080	5 100	6 195	7 079	5 605
Total revenue	16 862	24 073	28 256	31 764	38 222	41 726
Current expenditures	13 122	16 696	18 221	25 559	28 087	31 038
Capital expenditures	5,912	9,888	11 673	14 492	19 039	20 517
Total expenditures	19 035	26 584	29 895	40 051	47 126	51 555
Arrears and VAT refunds						
Overall balance	-2,884	-2,836	-2 869	-8 917	-9 592	-9 971
Divestiture receipts (as % of GDP)	0.6	0.4	0.2	0.0	2.1	0.9
Domestic (as % of GDP)	0.6	0.1	-1.7	4.9	-0.9	0.0
Foreign (as % of GDP)	3.3	3.3	3.7	2.8	5.6	5.2
Exceptional financing (as % of GDP)						
Total financing	3 022	2 941	2 233	9 088	9 592	9 971
Supplemental indicators						
Real GDP growth (%)	5.2	5.6	5.8	6	6	6.3
Real per capita GDP growth (%)	2.6	3.0	3.2	3.6	3.7	
Nominal GDP (cedi billion)	66 158	79 888	97 261	118 404	140 075	
Nominal GDP (US\$ million)	7 624	8 872	10 720	12 894		
Annual average inflation (%)	26.7	12.6	15.1	10.9	9.4	
Exchange rate (annual average)	8 677	9 005	9 073	9 183		
Real effective exchange rate (end of period)	2.4	-0.5	19.9	-1.1		
Gross official reserves (US\$ million)	1 427	1 816	1 951	2 325	2 568	
Months of import cover	3.2	3.3	2.9	3.1	3.0	
Current account to GDP (%)	1.7	-2.7	-7.0	-8.2	-8.6	
NPV of external debt outstanding (% of GDP)	71.5	35.2	19.9	17.5	19.0	
Total donor support (US\$ million)	681	837	971	894	1 039	
Total donor support (% of GDP)	8.9	9.4	9.1	6.9	6.9	

Source: Ghanaian agencies, IMF, Bloomberg, Standard Bank



Picture Gallery

FIGURE 1: COCOA PRODUCTION

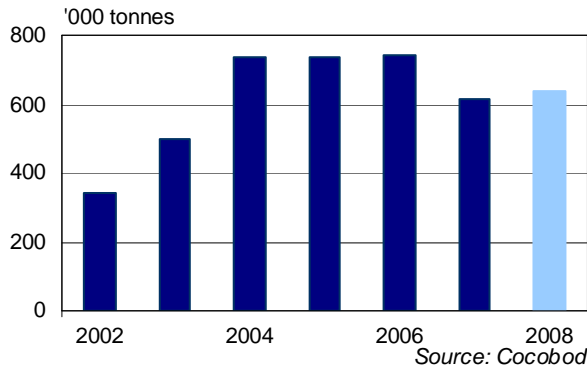


FIGURE 2: EXPORT VALUE - COCOA

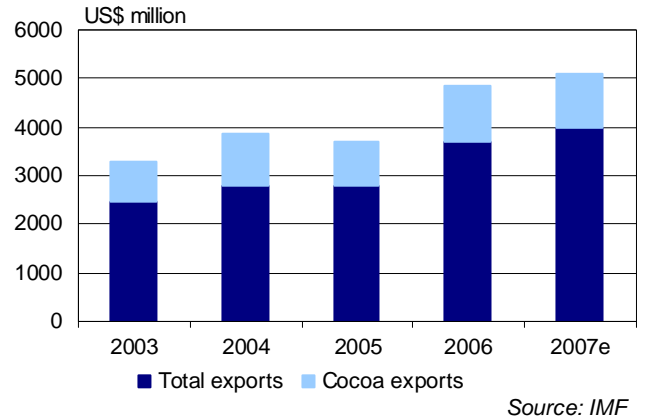


FIGURE 3: TRADE BALANCE

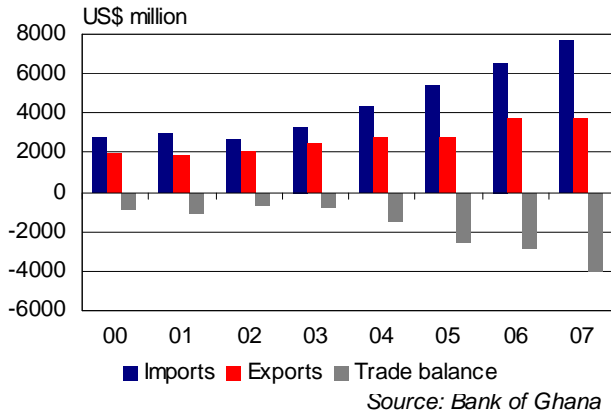


FIGURE 4: GROWTH IN MAIN COMPONENTS OF GDP

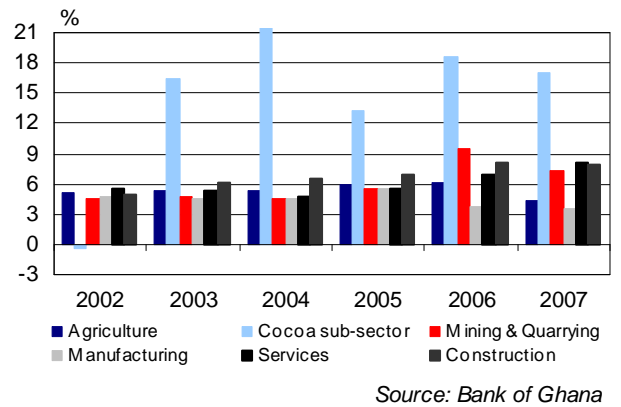


FIGURE 5: GOVERNMENT FINANCE

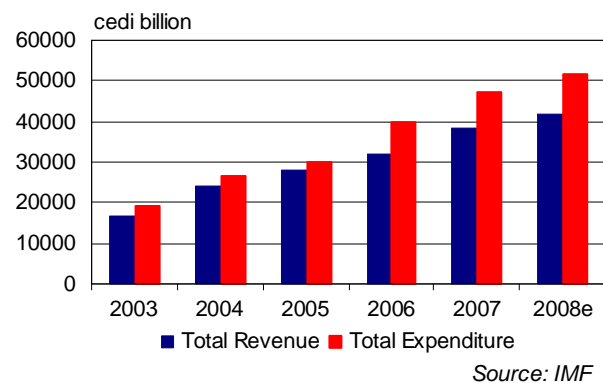
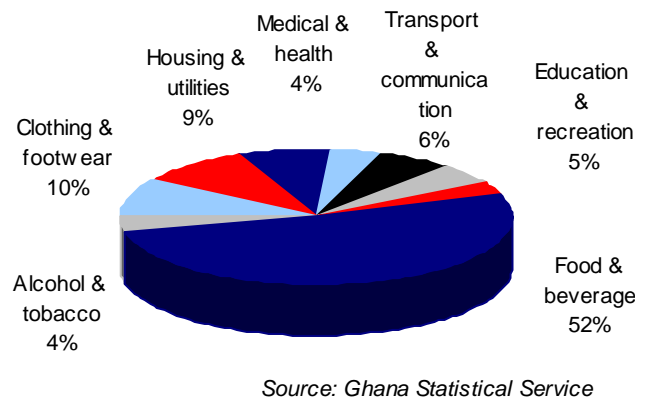


FIGURE 6: CPI WEIGHTS





Group Economics

Goolam Ballim – Group Economist

+27-11-636-2910 goolam.ballim@standardbank.co.za

South Africa

Johan Botha
+27-11-636-2463

Johan.botha2@standardbank.co.za

Shireen Darmalingam
+27-11-636-2905

Shireen.darmalingam@standardbank.co.za

Sizwe Nxedlana
+27-11-631-2018

Sizwe.Nxedlana@standardbank.co.za

Jeremy Stevens
+27-11-631-7855

Jeremy.Stevens@standardbank.co.za

Danelee van Dyk
+27-11-636-6242

Danelee.vanDyk@standardbank.co.za

Rest of Africa

Jan Duvenage
+27-11-636-4557

Jan.duvenage@standardbank.co.za

[Botswana](#)
[Lesotho](#)
[Namibia](#)
[Swaziland](#)

Anita Last
+27-11-631-5990

Anita.last@standardbank.co.za

[Angola](#)
[Ghana](#)
[Malawi](#)
[Mauritius](#)

Yvonne Mhango
+27-11-631-2190

Yvonne.Mhango@standardbank.co.za

[Kenya](#)
[Mozambique](#)
[Uganda](#)
[Zambia](#)

Victor Munyama
+27 11-631-1279

Victor.Munyama@standardbank.co.za

[DRC](#)
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