

## New policies to address new challenges

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 pickup 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 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.

To address fiscal and external imbalances the government has developed policies that, when fully implemented, will limit the increase in the fiscal and current account deficits in 2008 and reduce the fiscal deficit to 7% or less of GDP in 2009. Against the backdrop of high world oil prices and continued delays in starting deliveries through the West African Gas Pipeline (WAGP), the government eliminated subsidies for non-residential users by bringing utility prices to cost-recovery levels from 1 May 2008. The government is also considering steps to increase the very low level of government revenue from the gold sector (estimated at less than 6 % of gold export receipts).

Despite strong international prices for Ghana's principal exports, gold and cocoa, the national currency continued to depreciate marginally against all major currencies. The cedi averaged GHc0.9754/USD in March and GHc1.01/USD in April and May. From a low of 9.8% y/y a year ago, headline inflation gradually rose to 15.3% in April 2008. To address inflationary pressures, the Bank of Ghana's Monetary Policy Committee (MPC) raised the central bank interest rate - prime rate - from 13.5% to 14.25% in March 2008 and again in May 2008 by 175 basis points to 16%.

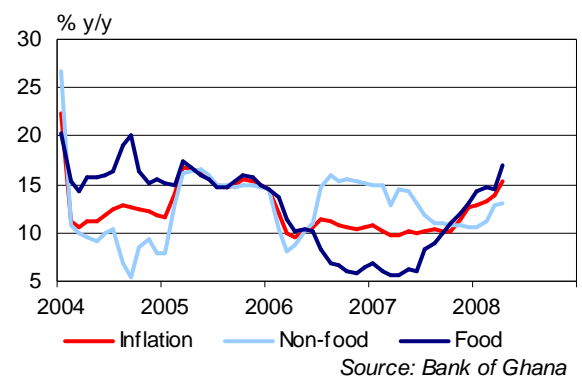
### Inflation

The Bank of Ghana (BoG) has fought to bring inflation under control in recent years. Intensified fiscal efforts to reduce domestic debt helped to contain growth of monetary aggregates and inflation moved into single digits - 9.5% in March 2006 - for the first time in more than a decade.

However, owing to constantly rising international crude oil prices and the pass-through of revisions to domestic petroleum prices, inflation started to rise and by the middle of 2006 peaked at 11.4% y/y. Persistent high crude oil prices (reaching the US\$100 per barrel mark), erratic food supply as well as increases of close to 100% in utility tariffs in the energy sector in November 2007 resulted in an increase in the consumer price index, and inflation for the year averaged 10.5%.

Latest figures released by the Ghana Statistical Service show that inflation had risen to a three-year high of 15.3% y/y in April 2008. Non-food inflation continued its upward trend driven by high utility and international oil prices, and recorded 14.4% y/y. Food price inflation, which constitutes 51% of the consumer price index (CPI), rose from a low of 5% y/y a year ago to 13.2% 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. Drought in the first part of 2007 followed by flooding in September, damaged food crops and destroyed northern farmlands.

Some relief from food inflation may come when the 2008/09 harvest season begins in August. 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.

### Interest rates

In response to inflationary pressures, the Bank of Ghana's Monetary Policy Committee (MPC) raised the central bank interest rate - 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 22% to 41% range of.

The Bank of Ghana (BOG) is becoming increasingly concerned over the gap between its policy rates and those of commercial banks and other deposit taking and lending institutions. The rates continue to show high spreads between deposit and lending rates and are well above the policy rates of the BoG. 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 – firstly to see the spread between interest charged on loans and earned on deposits and secondly to see the impact of hikes on inflation and revisions in the BOG prime rate.

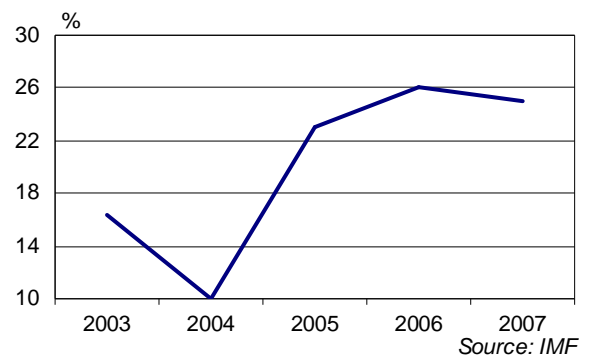
The publication of this information will increase transparency within the sector, which would force financial institutions to compete, allow consumers to act according to their interests, and thereby increase the reach and efficiency of financial services.

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

### Private sector credit

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 cuttings 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%.

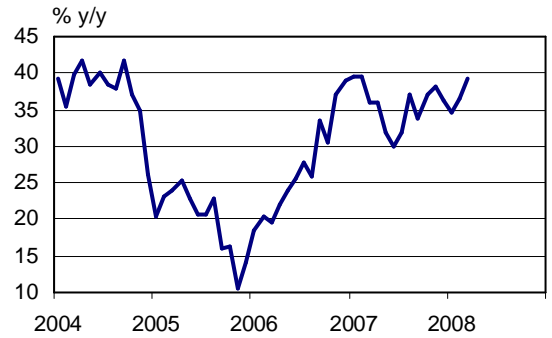




**Money supply (M2+)**

Annual M2+ growth in March 2008 was strong at 39.2%, up from 35.9% recorded for 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.



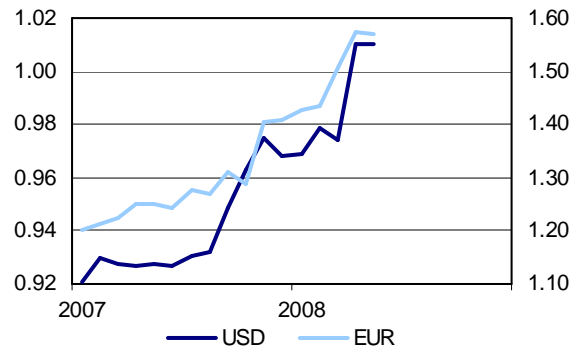
Source: Bank of Ghana

**Exchange rates**

Despite strong international prices for gold and cocoa, the national currency continued to depreciate marginally against all major currencies in the first five months 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 and GHc1.01/USD in April and May.

Projected increases in fuel prices pose a risk to exchange-rate stability and the trend in moderate depreciation against the dollar. Given Ghana's high dependence on commodity exports, the cedi remains vulnerable to external shocks.



Source: Bloomberg

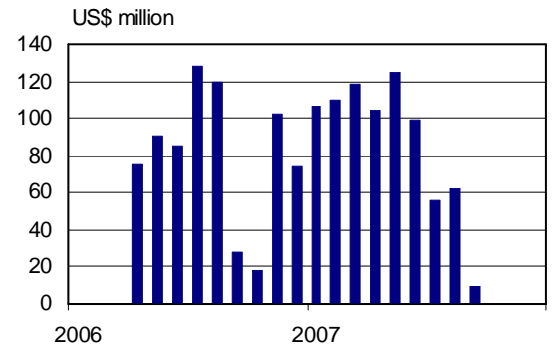
**Cocoa**

Ghana's Cocoa Board (Cocobod) expects solid output for the 2007/08 season as a result of improving weather conditions. Purchases declared by private buyers reached 566 340t in the first 25 weeks of the 2007/08 season, which represents an increase of 10.2% over the same period last year. By April, production was on target and slightly ahead of projections. Consequently, Cocobod increased its initial estimate at the start of the season of 600 000 tonnes to 634 000 tonnes - an 8% increase. Last year the country declared total production of 614 469 tonnes, down from a record 740 457 tonnes the previous year.

The average price of cocoa bean exports, which was US\$1 942.2 per tonne at the end of December 2007 increased by 7.7% to US\$2 091.8 per tonne at the end of March 2008. Exports of cocoa beans and products amounted to US\$401.5 million in the first quarter of 2008, higher than US\$382.27 million recorded for the same period in 2007 and US\$221.9 million for the fourth quarter of 2007.

An increase in cocoa-processing capacity is 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.

**COCOA EXPORTS**



Source: Bank of Ghana



### Mining

The mining sector's contribution to GDP is relatively modest at 5% but it is an important source of export revenues accounting for about 40%. (Gold and cocoa each generates around US\$1 billion in export revenue.)

Revenue from minerals reached US\$577.9 million in the first quarter of 2008, a 17% increase from US\$493 million registered in the last quarter of 2007. The increase is attributed to the rise in the gold price and marginal growth in output. Although manganese shipments were down from 417 503 tonnes to 233 252 tonnes for the first quarter, it contributed US\$13.4 million, up from US\$10 million in the first quarter of 2007.

Gold prices broke through the US\$1 000 mark in March 2008, resulting in an average export price of US\$916.6 per ounce at the end of the first quarter of 2008, representing a 17.8% increase over the level at the end of December 2007, and a 42.4% rise in year-on-year terms. Gold exports totalled US\$608.9 million as against US\$395.0 million recorded for the same period in 2007 and US\$486.4 million for the fourth quarter of 2007.

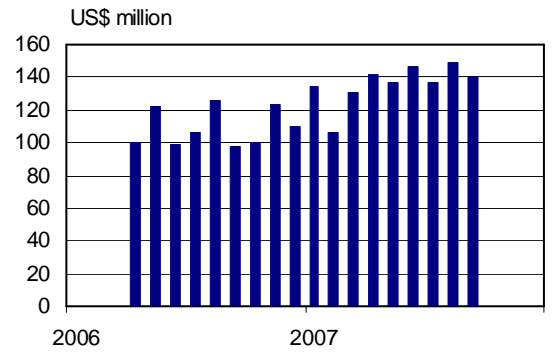
Investments in gold mines are expected to raise output over the medium term. Newmont Mining expects a 9.6% increase in gold production from its Ahafo mine with production forecast at 500 000 ounces, up from 456 000 ounces last year.

Continued uncertainty on global markets and the weakness of the US dollar will keep the price of gold high, at a forecast average of US\$934/troy oz in 2008 and US\$849/troy oz in 2009. However, increasing input costs could affect mining profitability. The average cost per ounce is expected to increase from last year's US\$396 per ounce to between US\$485 and US\$520 this year on the back of rising oil, labour and other costs.

The prospect of oil production could accelerate Ghana's timetable for reducing poverty and reaching middle-income status by 2015, provided that it avoids the "oil curse" of governance problems and boom-bust cycles. To this end, the authorities have started nation-wide consultation on how best to use oil resources to benefit the Ghanaian people. The government has signed a memorandum of understanding (MOU) with the government of Norway on oil management whereby Norway will provide technical assistance to ensure the transfer of human resources that will enable Ghana to derive the maximum benefit from oil discoveries. The MOU is renewable after five years and will cover adherence to regulatory frameworks, environmental health, and safety and security on oil and gas reserves. Ghana spends US\$2 billion on crude oil imports, which it hopes to reduce.

Tullow Oil, which recently announced an oil find in its Jubilee Field off the Ghanaian shore of Cape Three Points, is on track to produce its first oil by 2010. Plans are to develop the oil field gradually, starting with 60 000 barrels a day. This will finance further development of the field, which is expected to peak at between 250 000 and 300 000 barrels a day at a cost of between US\$3 billion and US\$10 billion. Tullow intends financing the costs without a rights issue or bringing in another partner.

### GOLD EXPORTS



Source: Bank of Ghana



## Summary forecasts

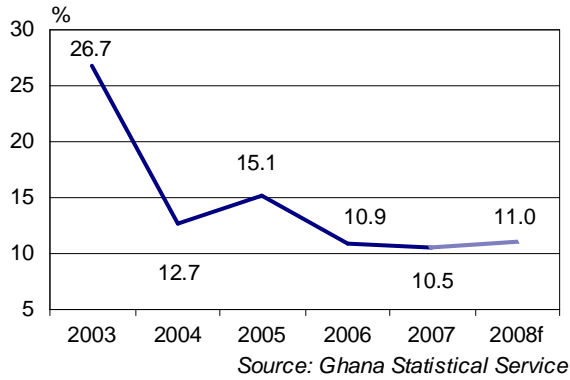
	2003	2004	2005	2006	2007e	2008e
<b>Balance of payments (US\$ million)</b>						
Exports	2 471	2 785	2 803	3 680	3 680	
Imports	-3 259	-4 297	-5 345	-6 523	-7 692	
Trade balance	-788	-1,512	-2 542	-2 843	-3 711	
Services	-280	-554	-329	-392	-215	
Private transfers	801	1,287	1 550	1 788	2 143	
Official transfers	393	544	567	393	495	
Current account	127	-235	-754	-1 -54	-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	
<b>Government finances (cedi billion)</b>						
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
<b>Supplemental indicators</b>						
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

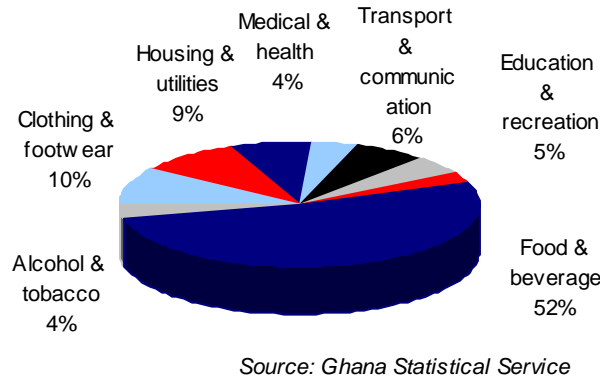


### Picture Gallery

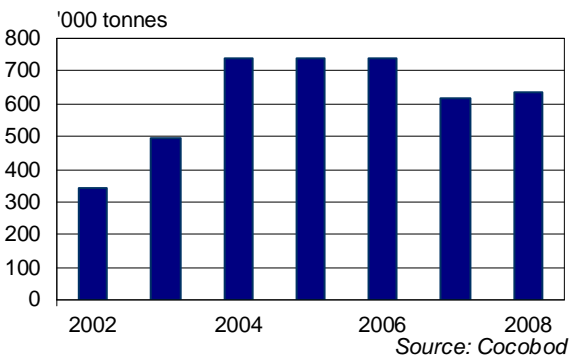
**FIGURE 1: MAJOR INFLATION COMPONENTS**



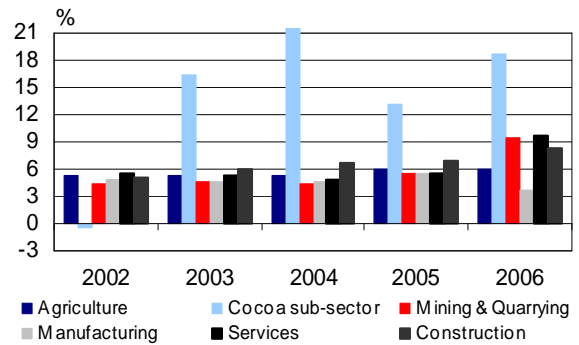
**FIGURE 2: CPI COMPOSITION**



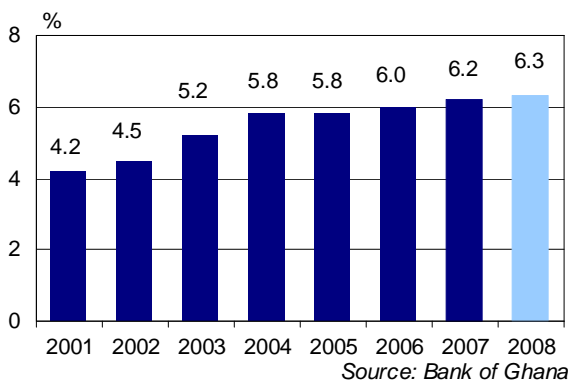
**FIGURE 3: COCOA PRODUCTION**



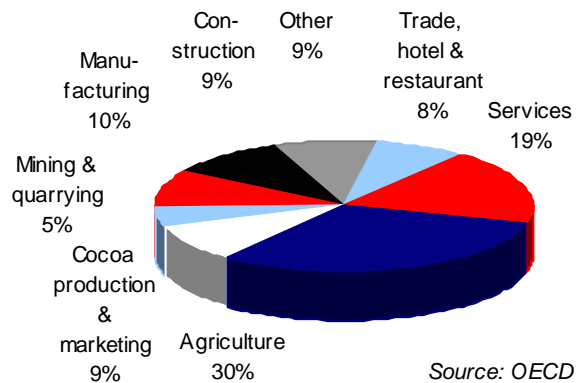
**FIGURE 4: GROWTH IN MAIN GDP COMPONENTS**



**FIGURE 5: GDP GROWTH**



**FIGURE 6: GDP CONTRIBUTION**





## Group Economics

Goolam Ballim – Group Economist

+27-11-636-2910 [goolam.ballim@standardbank.co.za](mailto:goolam.ballim@standardbank.co.za)

### South Africa

Johan Botha  
+27-11-636-2463

[Johan.botha2@standardbank.co.za](mailto:Johan.botha2@standardbank.co.za)

Shireen Darmalingam  
+27-11-636-2905

[Shireen.darmalingam@standardbank.co.za](mailto:Shireen.darmalingam@standardbank.co.za)

Sizwe Nxedlana  
+27-11-631-2018

[Sizwe.Nxedlana@standardbank.co.za](mailto:Sizwe.Nxedlana@standardbank.co.za)

Jeremy Stevens  
+27-11-631-7855

[Jeremy.Stevens@standardbank.co.za](mailto:Jeremy.Stevens@standardbank.co.za)

Danelee van Dyk  
+27-11-636-6242

[Danelee.vanDyk@standardbank.co.za](mailto:Danelee.vanDyk@standardbank.co.za)

### Rest of Africa

Jan Duvenage  
+27-11-636-4557

[Jan.duvenage@standardbank.co.za](mailto:Jan.duvenage@standardbank.co.za)

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

Anita Last  
+27-11-631-5990

[Anita.last@standardbank.co.za](mailto:Anita.last@standardbank.co.za)

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

Yvonne Mhango  
+27-11-631-2190

[Yvonne.Mhango@standardbank.co.za](mailto:Yvonne.Mhango@standardbank.co.za)

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

Victor Munyama  
+27 11-631-1279

[Victor.Munyama@standardbank.co.za](mailto:Victor.Munyama@standardbank.co.za)

[DRC](#)  
[Nigeria](#)  
[Tanzania](#)  
[Zimbabwe](#)

All new and existing clients have to select their own publications which they want to receive via email and update their profile on our website.

Select <http://ws9.standardbank.co.za/sbrp/LatestResearch.do> and select **Register** enter your email address and a logon and password will be emailed to you.

All our research is free and you can view our latest reports on the home page.

#### Analyst certification

The authors certify that: 1) all recommendations and views detailed in this document reflect his/her personal opinion of the financial instrument or market class discussed; and 2) no part of his/her compensation was, is, nor will be, directly (nor indirectly) related to opinion(s) or recommendation(s) expressed in this document

#### Disclaimer

This document does not constitute an offer, or the solicitation of an offer for the sale or purchase of any investment or security. This is a commercial communication. If you are in any doubt about the contents of this document or the investment to which this document relates you should consult a person who specialises in advising on the acquisition of such securities. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by the Standard Bank Group Limited, its subsidiaries, holding companies or affiliates as to the accuracy or completeness of the information contained herein. All opinions and estimates contained in this report may be changed after publication at any time without notice. Members of the Standard Bank Group Limited, their directors, officers and employees may have a long or short position in currencies or securities mentioned in this report or related investments, and may add to, dispose of or effect transactions in such currencies, securities or investments for their own account and may perform or seek to perform advisory or banking services in relation thereto. No liability is accepted whatsoever for any direct or consequential loss arising from the use of this document. This document is not intended for the use of private customers. This document must not be acted on or relied on by persons who are private customers. Any investment or investment activity to which this document relates is only available to persons other than private customers and will be engaged in only with such persons. In European Union countries this document has been issued to persons who are investment professionals (or equivalent) in their home jurisdictions. Neither this document nor any copy of it nor any statement herein may be taken or transmitted into the United States or distributed, directly or indirectly, in the United States or to any U.S. person except where those U.S. persons are, or are believed to be, qualified institutions acting in their capacity as holders of fiduciary accounts for the benefit or account of non U.S. persons; The distribution of this document and the offering, sale and delivery of securities in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Standard Bank Group Limited to inform themselves about and to observe any such restrictions. You are to rely on your own independent appraisal of and investigations into (a) the condition, creditworthiness, affairs, status and nature of any issuer or obligor referred to and (b) all other matters and things contemplated by this document. This document has been sent to you for your information and may not be reproduced or redistributed to any other person. By accepting this document, you agree to be bound by the foregoing limitations. Unauthorised use or disclosure of this document is strictly prohibited. Copyright 2004 Standard Bank Group. All rights reserved.