BANK OF GHANA ANNUAL REPORT 2006

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GOVERNOR'S FOREWORD

Gross Domestic Product (GDP) growth increased to 6.2 per cent in 2006, bringing the average to 5.5 per cent over the past five years, a dividend from deepening macroeconomic stability.

Monetary policy in the past year continued to focus on achieving single digit inflation in a context of unprecedented rise in international crude oil prices, and the full deregulation of the petroleum prices on the domestic market. The year ended with headline inflation at just above 10 per cent. The external payments position remained resilient with a further build-up of reserves to a record US$2.1 billion or 3.5 months import cover at the end of 2006.

In line with diminishing inflation expectations, the Monetary Policy Committee (MPC) reduced the Prime Rate in the last quarter of the year, which was preceded by a complete removal of the secondary reserve requirements held by banks, to position the banks to support an increasing pace of economic activity.

The Bank introduced a Macroeconometric Model (EMOD) to complement other analytical tools and instruments for assessing the response of the economy to policies and exogenous shocks. Labour Market Surveys were introduced to fill some of the information gap on the labour market. And a study was completed, helping to gain a better understanding of the pricing of credit and competitiveness of banks and the relationship between the Prime Rate and other rates in the financial sector in the monetary policy transmission process.

Strong prudential supervision continued to support the fundamental policy of building a sound, competitive, and resilient financial system. The Bank prepared the ground to adopt in the coming year a risk-based approach to supervision with its focus on a continuous assessment of institutions on both on-site and off-site basis.

The new Foreign Exchange Law, passed at the close of the year, overhauls the Exchange Control Act, removes the uncertainty about the rules governing transactions in the foreign exchange market, and investment and capital flows into the country. It has allowed us to simplify the documentation and approval procedures that burdened the system under the Exchange Control Act, liberalise the exchange and payments system, effectively opening the economy to the global markets. The Central Securities Depository (CSD) Law was passed to establish the legal basis needed to extend the electronic security of title to investments in equities and securities listed on the Ghana Stock Exchange. The passage of the Credit Reporting Bill would allow an informed assessment and pricing of risks in the delivery of credit.

In the last quarter of 2006, the Bank announced the re-denomination of the cedi to take effect from July 2007. This will make the current ten thousand cedis equivalent to one Ghana cedi, and equivalent to one hundred Ghana Pesewas. The external value will continue to be determined freely on the market. The re-denomination seeks to consolidate all the recent economic changes and measures and remove the deadweight burden that the existing currency note regime places on the economy.

The Bank continued its effort at modernizing its operations and practices. The fully integrated information and data management system under the IMPACT 05 project should go live by the third quarter of 2007. The past year saw an accelerated investment in maintenance of assets of the Bank and in improving the working environment. The process of refurbishing the Cedi House and other Regional Offices began in earnest. The new Training Centre at the Cedi House was virtually completed as well as the Takoradi Regional Office which is expected to open for operations early in the coming year. Meanwhile, in-house seminars complemented by foreign training programmes were pursued to enhance professional skills and career development. In line with the Bank's objective of recruiting and retaining the best qualified staff, a comprehensive review of staff compensation and competitiveness of employment conditions was instituted during the year.

In sum, the year has been one of landmark events with deepening macroeconomic stability supporting the increased pace of growth. Various regulations were passed to transform the legal and regulatory framework governing the financial sector and that underpinning the Bank's prudential supervision policies and practices. And, it has been a period of modernisation of the Bank's operating systems and upgrading of assets and the working environment.

Next year is the Bank's 50th Anniversary as a central bank which coincides with the 50th Anniversary of the Country. This should motivate us to re-commit to building upon the progress we have made together and to aspire to achieve the highest standards of excellence in the exercise of our statutory mandate and within the global community of central banks.

I would like to take this opportunity to thank the Board of Directors for their support and guidance. I extend deep appreciation to members of staff for their hard work, commitment and cooperation.

Thank you.

Paul A. Acquah
Governor

REPORT OF THE NON-EXECUTIVE DIRECTORS

In 2006, the Board continued to support Management's efforts to put in place and strengthen mechanisms for limiting legal risks to which the Bank was exposed.

Thus, the Corporate Governance Committee reviewed the status of all 48 legal cases pending as these have serious financial and reputational implications for the Bank. The following draft bills, to improve the legal and regulatory framework governing the financial system, especially the domestic money and capital markets, were sent to Parliament for passage into law:

- Foreign Exchange Bill
- Insurance Bill
- Insolvency Bill
- Credit Reporting Bill

The Human Resource Committee worked with Management in pursuing a programme of Training, Career Development and aligning the human resource capital of the Bank with core statutory functions, a programme which begun in 2003. The Non-executives were pleased with the quality of the Bank's Staff as measured by the integrity of reports presented to the Board, and supported Management's decision to base promotions on merit as opposed to years of service with the Bank.

Further, Non-Executives were fully supportive of the Bank's 2006 Budget and Strategic Plan, to deliver the Bank's core purposes. The agreed budget for the year enabled the Bank to implement policy reforms in the money market as well as an IT strategy. The significant advances made by the Bank in IT is noteworthy, particularly the ongoing installation of a fully integrated Banking and ERP Solution and the introduction of a National Electronic Payment System.

In line with the policy of making more funds available for lending to the private sector, the Board endorsed the abolition of the secondary reserve requirement of commercial banks, with effect from August 1, 2006. There still remains some work to be done on the high cost of interest to commercial bank customers, despite the continued cuts in the Bank's prime rate. Non-Executives are pleased to note that the Bank of Ghana has directed commercial banks to publish and justify their cost of money to customers as a way of keeping cost of borrowing in check.

Finally, Non-Executives are actively engaged in the re-denomination exercise and are confident of a successful outcome. We look forward to the coming year with much optimism.

Nik Amarteifio
Lead Director

BOARD OF DIRECTORS

Mandate

› To maintain stability in the general level of prices

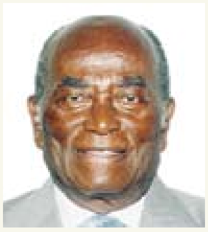
› To promote efficient operations of the banking and payment systems and support general economic growth.

Dr. Paul A. Acquah
Governor/Chairman

Mr. Lionel Van Lare Dosoo
Deputy Governor

Dr. Mahamudu Bawumia
Deputy Governor

Mr. Nik Amarteifio
Business Executive



Prof. Fred T. Sai
Reproductive Health Consultant

Mrs. Gloria Nikoi
International Consultant

Mr. Sam Okudzeto
Legal Practitioner

Rev. Dr. Kwabena Darko
Industrialist

Prof. K. Asenso-Okyere
Vice-Chancellor, University of Ghana

Togbe Afede XIV
Investment Banker

Prof. G. Gyan-Baffour
Deputy Minister of Finance and Economic Planning

Lt. Gen (Rtd) Joshua M. Hamidu
Retired Diplomat

Mr. James A. Odei
Secretary to the Board

Mr. Nik Amarteifio
Membership of other Boards
- Chairman, African Selection Mining Corporation
- Chairman, Dannex Pharmaceuticals Ltd.
- Vice Chairman, Ghana Agro-Food Company Ltd. (GAFCO)

Prof. Fred T. Sai
Membership of other Boards
- Chairman, Steering Committee – Ghana Aids Commission
- Ghana Academy of Arts & Sciences
- Family Health International, USA

Mrs. Gloria Nikoi
Membership of other Boards
- Chairperson, Council of Centre for Policy Analysis (CEPA)
- Chairperson, ARB Apex Bank Ltd

Mr. Sam Okudzeto
Membership of other Boards
- Bonte Gold Mines Ltd
- Air Ghana Ltd
- Deng Limited

Rev. Dr. Kwabena Darko
Membership of other Boards
- Chairman, Darko Farms
- Opportunity International, USA
- Chancellor, Regent University Ghana

Prof. K. Asenso-Okyere
Membership of other Boards
- Chairman, SADOAC Foundation
- Food Security Research and Policy Dialogue Initiative in West Africa
- Council of CSIR Roll Back Malaria Advisory Board

Togbe Afede XIV
Membership of other Boards
- Chairman , Strategic Initiatives Limited
- SAS Investment Management Limited
- Aluworks Limited

Prof. George Gyan-Baffour
Membership of other Boards
- Council for Scientific and Industrial Research

Lt. Gen. (Rtd.) Joshua M. Hamidu
Membership of other Boards
- Chairman, Narcotics Control Board

ORGANISATIONAL STRUCTURE

BOARD OF DIRECTORS

- Monetary Policy Committee

GOVERNOR

DEPUTY GOVERNOR

- Banking Supervision
- Budget & Accounts
- Legal
- Medical
- Reconciliation & Investigation

GOVERNOR

- Secretary's
- Monetary Policy Analysis & Financial Stability
- Internal Audit
- Treasury
- Security
- External Financial Relations
- Public Affairs

DEPUTY GOVERNOR

- Human Resource
- Research
- General Services
- Banking
- Issue
- Computerisation & Systems
- Information, Documentation & Publications Services

1. GOVERNANCE

1.1 The Board of Directors

The Bank's Governing Body is its Board of Directors as stipulated in the Bank of Ghana Act 2002 (Act 612). The Board consists of the Governor, who is the Chairman, two Deputy Governors, and nine non-executive Directors.

The Board is appointed by the President of the Republic of Ghana in consultation with the Council of State. All members of the Board, other than the Governor and the two deputies hold office for a period of three years and are eligible for re-appointment.

The Board is responsible for formulating policies necessary for the achievement of the Bank's objectives, which are:

- To maintain stability in the general level of prices
- To ensure effective and efficient operations of the banking and credit systems and support general economic growth.

1.2 Changes in Board Membership

During the year, the following changes occurred in the membership of the Board.

Retirement/Resignations

- Mr. Emmanuel Asiedu-Mante, Deputy Governor, retired on May 31, 2006 after more than thirty-eight years of service to the Bank.
- Mr. Kwaku Agyemang-Manu, Deputy Minister, Ministry of Finance & Economic Planning relinquished his representation on the Board when he was re-assigned to the Ministry of Interior in June 2006.
- Mr. Ishmael Yamson resigned from the Board on 1st June, 2006.

Appointments

- Dr. Mahamudu Bawumia was appointed Deputy Governor on 1st June, 2006.
- Prof. George Gyan-Baffour, Deputy Minister, Ministry of Finance and Economic Planning was appointed to the Board as the Ministry's Representative on 30th August, 2006.
- Lt. Gen. (Rtd) Joshua M. Hamidu was appointed to the Board on 1st September 2006.

1.3 Committees of the Board

For the purpose of carrying out its functions effectively, the Board has five committees, namely;

- Human Resource
- Corporate Governance
- Economy and Research
- Strategic Planning and Budget; and
- Audit

Human Resource Committee

The responsibilities of the Committee include assessing and establishing the effectiveness of policies and procedures relating to recruitment, training, staff performance and reward systems of the Bank. Members of the Committee are:

Rev. Dr. Kwabena Darko	Chairman
Prof. Fred T. Sai	
Mr. Sam Okudzeto	
Prof. Kwadwo Asenso-Okyere	
Mr. Lionel Van Lare Dosoo	

Corporate Governance Committee

The Committee's responsibilities include initiating policies on bank regulation and supervision, external relations, general functions of the Bank and compliance with statutory obligations. Members of the Committee are:

Mr. Sam Okudzeto	Chairman
Mrs. Gloria Nikoi	
Rev. Dr. Kwabena Darko	
Mr. Nik Amarteifio	
Togbe Afede XIV	
Prof. Fred T. Sai	
Lt. Gen. (Rtd) Joshua M. Hamidu	
Dr. Mahamudu Bawumia	

Economy and Research Committee

The Committee is responsible for the Bank's functions that relate to economic, banking and financial matters. The Committee collaborates with the Research Department on research activities of interest to the Board. Members of this Committee are:

Mrs. Gloria Nikoi	Chairperson
Rev. Dr. Kwabena Darko	
Prof. Kwadwo Asenso-Okyere	
Prof. G. Gyan-Baffour	
Togbe Afede XIV	
Mr. Lionel Van Lare Dosoo	
Dr. Mahamudu Bawumia	

Strategic Planning and Budget Committee

The responsibilities of the Committee involve strategic policy issues in the Bank.

Members of the Committee are:

Mr. Nik Amarteifio	Chairman
Mrs. Gloria Nikoi	
Mr. Sam Okudzeto	
Prof. G. Gyan-Baffour	
Prof. Kwadwo Asenso-Okyere	
Lt. Gen. (Rtd) Joshua M. Hamidu	
Dr. Mahamudu Bawumia	

Audit Committee

This Committee is responsible for establishing appropriate accounting procedures and controls for the Bank. It ensures compliance with statutory requirements, and considers audit reports on the Bank's operations. Members of the Committee are:

Prof. Fred T. Sai	Chairman
Lt. Gen. (Rtd) Joshua M. Hamidu	
Mr. Lionel Van Lare Dosoo	
Prof. G. Gyan-Baffour	
Dr. Mahamudu Bawumia	

1.4 Major Issues Considered by the Board

In accordance with its work programme for the year, the Board considered a number of issues in line with its responsibilities. These included:

Sector Studies

The Board observed that the Telecommunications and Small & Medium Scale Enterprises sectors were facing problems and commissioned in-depth studies into the performance of both sectors.

The New Foreign Exchange Act

The Board examined proposals for a new Foreign Exchange Act to replace the existing Exchange Control Act 1961 (Act 71), having noted that the current law was out of tune with economic realities. The Board also observed that there was the need to incorporate incentives in the new Act in order to create an attractive investment environment. The new Foreign Exchange Act 2006 (Act 723) was passed at the end of the year.

Credit Reporting Bill

The Board discussed the stability of the financial system and observed that the Promulgation of a Credit Reporting Bill will go a long way to enhance the stability of the financial system.

Capital Market Development

The Board discussed the need to develop the Capital Market as a source of long-term investments for economic growth. Towards this end, the Board directed the Bank to conduct a study on this sector for a policy decision. The study led to the establishment of the Capital Market Committee.

Fixed Assets and Replacement Policy

The Board reviewed the Bank's Fixed Assets and Replacement Policy to bring it in line with international accounting standards.

Box 1: Statement on the Credit Reporting Act

The Credit Reporting Bill has been passed by Parliament. The purpose of the Credit Reporting Act (Act 726) is to provide a legal and regulatory framework for credit reporting in Ghana. The availability of credit information is generally accepted to be crucial for the development and maintenance of an effective financial sector. Borrowers tend to have a natural incentive not to reveal negative information about themselves. The lack of a credit information system therefore increases the risks of lending, and causes financial institutions to provide less credit. A credit reporting system in Ghana would provide timely, accurate, and up – to – date information on the debt profile and repayment history of borrowers and would lead to a number of benefits.

This Credit Reporting Act is designed to promote the orderly development of a credit reporting system for Ghana and to promote public trust in credit bureaux operations. Specifically, the Act provides for the licensing of private credit bureaux (and gives the Bank of Ghana the authority to set up a public credit bureau), regulates the activities of credit bureaux, establishes guiding principles for the conduct of the credit reporting system, and provides for credit data submission, data management and protection, and dissemination. It seeks to strike a balance between the rights of borrowers on the one hand, and the need to share credit information effectively, on the other.

Access to credit reports prepared by a credit bureau is restricted under the Act. In accordance with the principle of reciprocity, only financial institutions who submit credit information to a credit bureau and who show evidence of the customer's consent to the issuance of a credit report will be eligible to access a credit bureau's data. Financial institutions that are eligible to access a credit bureau's database may only do so for credit risk management purposes including the assessment of a credit application.

The Bank of Ghana is the regulatory authority for the Credit Reporting Act.

1. GOVERNANCE CONTINUED

Box 2: Re-denomination of the Cedi

Summary of the Governor's Presentation to Parliament

Accra, December 4, 2006

Introduction

The re-denomination of the cedi is designed to address one important lingering legacy of past inflation and macroeconomic instability. The legacy of the past episodes of high inflation has been the rapid increases in the numerical values of prices as well as foreign currency exchange in local currency terms.

The current note regime places significant deadweight burden on the economy. This comes in several forms such as the high transaction costs at the cashiers, general inconvenience and high risks involved in carrying loads of currency for transaction purposes, increasing difficulties in maintaining bookkeeping and statistical records and ensuring compatibility with data processing software, and the strain on the payments system, particularly the ATMs.

Historical analyses suggest that re-denominations have been successful in an environment of macroeconomic stability. Over the past five years, macroeconomic stability has taken root; inflation and interest rates are falling; the currency is stable; the cedi's role as a store of value has been restored, under a policy of commitment to fiscal and monetary prudence. This creates the appropriate conditions for the re-denomination exercise in Ghana.

The re-denomination will involve a new note regime and will set the new currency numeraire at ¢10,000=GH¢1=100Gp. The new set of currency will have the following characteristics:

- Name of new currency would be Ghana Cedi (GH¢).
- The sub unit of GHC is the Ghana Pesewa (Gp).
- The series of notes and coins are as follows:
  Notes: GH¢1, GH¢5, GH¢10, GH¢20 and GH¢50.
  Coins: 1Gp, 5Gp, 10Gp, 20Gp, 50Gp and GH¢1.

Circulation

- The old cedi notes and coins would be withdrawn from circulation starting from July 2007 over a period of at least six (6) months.
- Both the old and new cedi banknotes and coins would be in physical circulation for a period of 6 months.
- However, after the 6 month transition period, old notes and coins would only be exchanged at the Bank of Ghana, commercial and rural banks. It will however not be legal tender and therefore would not be used for trade and other transactions.
- The old and new notes and coins will have the same external value. This means that if the day's exchange rate between the cedi and the dollar is \$1=¢9,200, then the exchange rate of the Ghana Cedi (GH¢) is:
  ¢9,200=GH¢0.9200=92p=\$1

However, the external value of the cedi will continue to be determined freely on the market.

Benefits

- Reduction in cost and overall risks of carrying large volumes of notes.
- Efficiency in payments systems, in particular, ATMs.
- Simplification of accounting records and the ease of expressing monetary values.
- Re-introduction of the culture of using coins in Ghana.
- Conversion of ¢5000 and below into coins would increase the efficiency of banknote processing systems and improve the overall quality of banknotes in circulation.
- Significant reduction in transactions volume.
- Facilitating the introduction of the use of vendor machines and car parking meters.
- Promoting tourists' expenditures.
- Significant gains in cost of banknote production.

The re-denomination exercise is consistent with the spirit of reforms envisaged under the West African Monetary Zone (WAMZ) convergence programme. The target date for locking-in into a single currency (ECO) is December 2009 and it is important and necessary for each member country to take any step necessary to raise its economic performance. Efficiency gains from this re-denomination exercise will enable Ghana join the WAMZ as a stronger partner.

1.5 The Monetary Policy Committee

The Bank of Ghana Act 2002 (Act 612) grants the central bank operational independence in the conduct of monetary policy. To enhance the management of monetary policy, the Act provides for the establishment of a Monetary Policy Committee (MPC), comprising five representatives of the Bank and two nominees of the Government. The members of the MPC are:

Dr. Paul A. Acquah	Chairman
Mr. Lionel Van Lare Dosoo	
Dr. Mahamudu Bawumia	
Mr. Millison Narh	
Dr. Ernest K.Y. Addison	
Dr. Nii Kwaku Sowa	
Prof. Kofi Opoku Nti	

Members of the Monetary Policy Committee


Dr. Paul A. Acquah
Chairman


Mr. Lionel Van Lare Dosoo


Dr. Mahamudu Bawumia


Mr. Millison Narh


Dr. Ernest K.Y. Addison


Dr. Nii Kwaku Sowa


Prof. Kofi Opoku Nti

1.6 Management of the Bank

The Governor, assisted by the two Deputy Governors, is responsible for the day-to-day management of the Bank. They constitute the Top Executive of the Bank. Advisors and Heads of department assist the Top executive.

2. DEVELOPMENTS IN THE GLOBAL ECONOMY

2.1 World Output Growth

Global economic activity remained buoyant in 2006. From 4.9 per cent in 2005, the International Monetary Fund (IMF) projects world output growth at 5.1 per cent in 2006. While waning housing prices, tightening monetary policy and rising oil prices slowed down economic momentum in the US after the first quarter of 2006, there was stronger than expected growth in Europe, Japan and Asia, underpinned by higher than trend investments and domestic demand. Low-income countries also maintained an impressive growth performance, and in Sub-Saharan Africa, growth remained quite robust at an estimated 4.75 per cent for 2006, underpinned by strong commodity prices.

US & Canada

After rebounding strongly in the first quarter of 2006 to 5.6 per cent annualized real GDP growth, the US economy slowed subsequently to 2.5 per cent by the second quarter and 2.2 per cent in the third quarter. Growth is projected at 3.4 per cent for the year due to the cooling housing market, high energy prices and the impact of policy rate hikes undertaken during the year. These developments slowed down growth in US consumer spending from 4.8 per cent during the first quarter of 2006 to a pace of 2.6 per cent in the second quarter and 2.8 per cent in the third quarter. However, business investment in equipment and software supported rising exports and sustained moderate growth.

The US budget and current account deficits continued to widen and were both estimated at about 6.0 per cent of GDP in 2006. The potential risk of disorderly unwinding of the imbalances, which could lead to rapid depreciation in the US dollar and soaring interest rates, could push the US economy into recession and wreak havoc on the global economy.

In Canada, growth picked up robustly to 3.1 per cent in 2006 from 2.9 per cent in 2005 on the back of high commodity prices and growth in private consumption and business investment. There are concerns, though, that a sharper than expected slowing in the US economy could affect output growth as well as lead to rapid appreciation of the Canadian dollar.

Europe

Economic activity in the euro-area accelerated in 2006 with growth in the area, outpacing those of US and Japan after the first quarter. While external trade remained supportive, higher business investments and domestic demand boosted by robust job creation were the main drivers of growth in 2006. Growth in the year to the second quarter of 2006 was 2.4 per cent and remained so also in the third quarter. GDP growth for the year as a whole was projected to remain the same at 2.4 per cent, up from 1.3 per cent recorded in 2005.

In Germany, the World Cup tournament boosted economic activity, growth also picked up modestly in Italy and remained robust in France and Spain. The robust 3.0 per cent growth recorded in the UK during the first quarter moderated subsequently to 2.7 per cent in the third quarter and was projected to remain at that level for 2006 as a whole.

Asia

Asia continued to remain the fastest growing region in the world with GDP growth rates of countries in the area averaging above 5.0 per cent in 2006.

Japan's economic growth in the year was projected at 2.7 per cent for 2006, driven by higher business investments with strong corporate profits, higher domestic demand and higher exports. Nonetheless, the Japanese economy remained vulnerable to adverse external developments, including a further rise in oil prices, sharp appreciation of the yen against the backdrop of global imbalances.

In spite of efforts to slow down economic activity, China continued to grow at a robust pace in 2006. Underpinned by increased public investments and exports, Chinese real GDP grew by 11.3 per cent in the year to the second quarter, before slowing to 10.4 per cent in the third quarter of 2006. The IMF estimated that GDP growth in China for 2006, as a whole, would exceed 10.5 per cent. China's current account surplus continued to soar in 2006 and the country's foreign exchange reserves became the largest in the world when they exceeded US$1.0 billion and overtook those of Japan at the end of September 2006.

Driven by acceleration in the ICT services sector and domestic demand, GDP growth in India in the year to the third quarter was 9.2 per cent and was projected to average 8.0 per cent in 2006.

Latin America

Despite economic reforms undertaken over the past two decades, economic expansion in Latin America remained well behind that of Asia. Growth was reasonable, although unequally spread, and regional GDP is expected to rise by 4.75 per cent in 2006.

Africa

Underpinned by very strong global commodity prices and economic reforms, Sub-Saharan Africa is currently enjoying its strongest period of sustained economic expansion since the early 1970s. Regional growth was expected at 4.75 per cent in 2006. Oil exporting countries have contributed significantly to this performance but growth in oil importing countries was also robust.

2.2 Unemployment

The broad based global growth in economic activity in 2006 was accompanied by pick up in worldwide employment growth. From a level of 4.9 per cent at end December 2005, unemployment rate in the US dropped to 4.5 per cent in December 2006. Unemployment in the euro area continued to ease. From a level of 8.4 per cent in January 2006, the area-wide jobless rate fell to 7.9 per cent by May 2006, the first time since 2001, and remained below 8.0 per cent for the rest of the year. Virtually all the economies in the area registered improvements in employment growth during 2006. In the United Kingdom, unemployment rate edged up from 4.8 per cent at the beginning of 2006 to 5.1 per cent by February and hovered around 5.5 per cent for the rest of the year. Unemployment rates in Japan dropped steadily from 4.5 per cent in December 2005 to 4.0 per cent by November 2006, a trend likely to continue in the last month of the year.

2.3 General Price Level

Pass through effects of high oil prices contributed to generally rising inflation pressures in 2006. CPI inflation in the US increased to 4.7 per cent by September, 2006 but calmed in the last quarter, declining by 0.5 per cent in October and staying flat in November, reflecting cheaper energy costs and adding to evidence that inflation pressures were easing.

In the euro zone, harmonized CPI remained above the policy target of 2.0 per cent but ended the year at 1.9 per cent. Japan, which escaped deflation since May 2006 after nearly seven years of falling prices, settled at 0.3 per cent inflation in November.

2.4 Monetary Policy Stance and Interest Rates

In order to contain inflationary pressures arising from high and volatile oil prices, major central banks continued to tighten monetary policy through progressive policy rate hikes. After maintaining the policy rate at 2.0 per cent since June 2003, the ECB periodically increased the policy rate by 25 basis points regularly to bring the rate to 3.50 per cent by end-December 2006. By June 2006, the Federal Reserve Bank had raised the fed funds rate progressively to 5.25 per cent, from 1.0 per cent in May 2004, and maintained it throughout the rest of the year.

The Bank of Canada since May 2006 maintained its target overnight rate at 4.25 per cent while the Bank of England's Monetary Policy Committee raised the official Bank rate from 4.75 per cent to 5.0 per cent in November and left it unchanged through December 2006.

The People's Bank of China raised the 1-year lending rate of 5.85 per cent fixed since April 2006 to 6.12 per cent in August and maintained it till the end of the year while the Bank of Japan held on to its 0.25 key inter-bank rate.

2. DEVELOPMENTS IN THE GLOBAL ECONOMY CONTINUED

2.5 Foreign Exchange Market Developments

Overall, the US dollar has depreciated against the euro and to a lesser extent the yen since late 2005. The development reflected increased market concern with global imbalances as the US current account deficit continued to widen and surpluses in emerging Asia, especially China, and oil-exporting countries increased. In real effective terms, the US dollar is presently close to its average level since 1980, while the euro is somewhat above its long-run average with the yen somewhat below. The yuan remains undervalued and its nominal value has barely changed since the Chinese authority revalued it and adopted a reference basket of currencies as the anchor.

2.6 Commodities Market

Commodity prices remained very strong in 2006, with petroleum and base metals prices reaching new peaks in the first eight months in the year.

Crude Oil

Crude oil prices rose by an average of 16 per cent during the first eight months of 2006 to a high of $76 a barrel in early August. Increased demand, near capacity constraints both at the production and refinery stages and geopolitical tension were the main driving forces behind the price hikes. Thereafter, it traded in a narrow range of US$56 – US$62 a barrel towards the end of the third quarter and the period thereafter due to slowdown in economic activity in the US after the first quarter, reduced tension and increased exploration of alternative energy options. Oil price in 2006 continued to trigger off global demand for bio-fuel, particularly ethanol.

Gold

Gold prices climbed 26.0 per cent in 2006. After soaring to a 26-year high of $730 an ounce in mid-May, gold price slipped just above $645 by mid-June and dropped to $570.98 per ounce in mid-September before rebounding to $635.70 in December. Gold prices benefited from geopolitical tensions as well as the metal’s safe-haven status.

Cocoa

The price of cocoa rose from $1,547.41 per tonne in January to $1,729.29 in the middle of the year before dropping to $1,582.78 in mid-September 2006. By the end of December, cocoa price had rebounded to US$1,707.9 per tonne, with prospects that prices could move higher due to continuing political uncertainty and the postponement of the October 2006 general elections in Cote d’Ivoire.

2.7 Developments in Major Capital Markets

Performance of global equity markets in 2006 was mixed, reacting to dynamic swings in economic news during the review year. A bright first quarter was rocked by the precipitous May-June 2006 meltdown in equity markets but as the fourth quarter approached, markets rallied to the fall of oil prices and better than expected corporate earnings.

Amid strong first quarter growth momentum in the US, a fresh wave of mergers and acquisitions and strong corporate earnings, some major equity markets registered new highs in the year to April 2006. The FTSE 300 and other leading equities hit new four-and- half-year highs and bourses on the Wall Street also firmed up. Stocks in the Far East were also up 4.0 per cent during the period.

However, between May and July 2006, slowing housing markets in the US and some leading European countries, geopolitical tensions and the attendant high oil prices, inflation concerns and tightening by major central banks led to a general dip in stock performance world wide. During the period, Asian stock markets (especially Japanese equities) were the worse performing as investors worried about the effect of a potential economic slowdown on exports to Japan and the US.

Stock markets rebounded from the second quarter malaise as investors responded favourably to economic news of declining energy prices, Federal Reserve's decision to bring to an end a two-year short-term interest rate rising cycle and easing of concerns in the Middle East. Global equity markets thereafter witnessed strong performance. In the US, the S&P rose 13.5 per cent in the year. European equity markets pushed to fresh highs in the year, led by oil stocks. The Euro area FTSE 100 gained 19.1 per cent while Britain's FTSE 100 gained 12.5 per cent. Asian equity markets also reached new highs. China's stock markets flourished the most, rising by about 131.0 per cent in 2006. The Hong Kong Hang Seng rose by 37.2 per cent while equity prices in Japan rose by over 6.9 per cent. In Latin America, Brazil's BSVP rose by 32.9 per cent.

2.8 World Trade Organization (WTO) Negotiations

Negotiations on the Doha Development Agenda remains suspended since July 2006 following failure to reach agreement on reducing farming subsidies and lowering import taxes. The deadlock in agriculture talks also put progress in negotiations in other areas on hold, as the October 2006 deadline for concluding agreements on trade in services was missed and hopes of re-starting talks appeared remote given the wide differences in positions between developed and developing countries on the issues.

Following the collapse in talks, there are signs of a shift in priorities to bilateral or regional agreements that fall far short of a global deal both in the depth and scope coverage as well as a surge in threats to achieve a common ground through the dispute settlement system.

2.9 Outlook and Risks For 2007

Against the backdrop of lower but still volatile energy prices, inflationary concerns, tightening by major central banks, slower housing market and increased geopolitical tensions, the outlook is for continued healthy but moderate growth in 2007 with output expanding by an estimated 4.3 per cent, 0.2 percentage points below the estimate for 2006. Key risks to global growth in 2007 relate to the following:

› The risk of renewed increases in oil prices due to planned production cuts by OPEC, political risk in oil-exporting countries such as Iraq and Iran as well as increased militant activity in Nigeria, which could sustain inflationary pressures and trigger a more aggressive monetary policy stance by leading central banks.
› The risk of further increases in interest rates, which might dampen global demand and output and adversely affect financing conditions for borrowing countries.
› Widening global current account imbalances, especially increasing deficits in the US and soaring surpluses in particularly China and the potential risk of a disorderly unwinding of the imbalances, which could push the world into slower than expected growth and impose heavy cost on global economy.
› The risk of increased protectionism and the consequent slowdown in international trade and economic growth arising from failure to progress in WTO talks, US and EU trade restrictions and threats of restrictions against China.

3. MONETARY POLICY, INFLATION AND DEVELOPMENTS IN THE GHANAIAN ECONOMY

3.1 Overview

Inflation declined further in 2006 due to effective monetary management and supportive fiscal policy. While monetary policy was aimed at further reduction in inflationary pressures, fiscal policy was directed at reducing the debt-to-GDP ratio. These policies resulted in a strong real sector performance and a further build-up of international reserves.

3.2 Monetary Policy

The monetary policy objective continued to be the easing of inflation expectations further, to achieve the end-year inflation target of 9 per cent. This was against the backdrop of rising and volatile oil prices on the international market and some agitations on the domestic labour front. The favourable outcome of monetary policy in 2006 was supported by low inflation expectations of economic agents –consumers and businesses (see Charts 1 and 2).

Chart 1: Weighted Inflation Expectations of Businesses

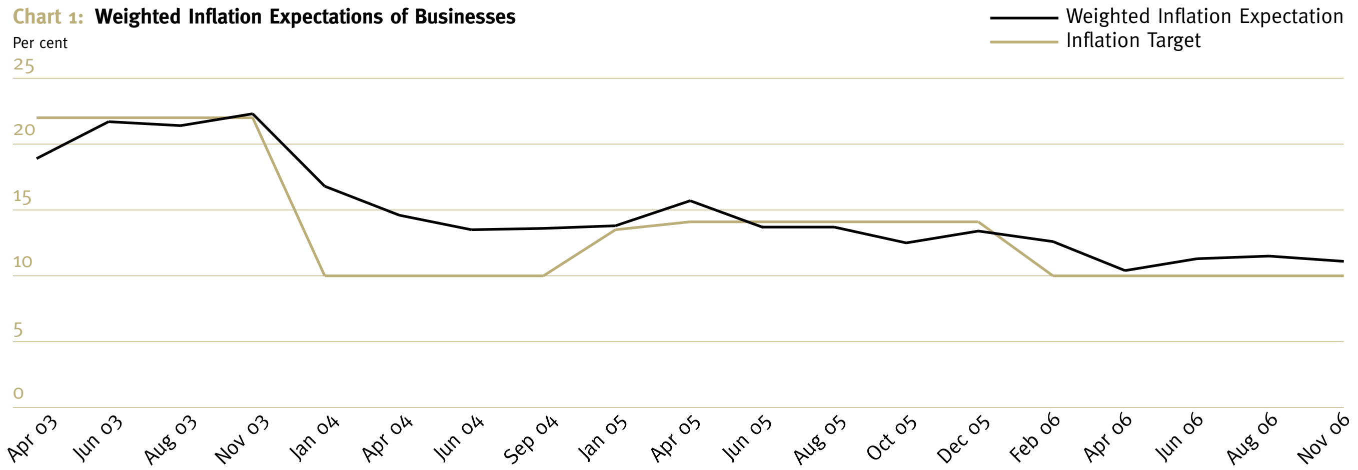
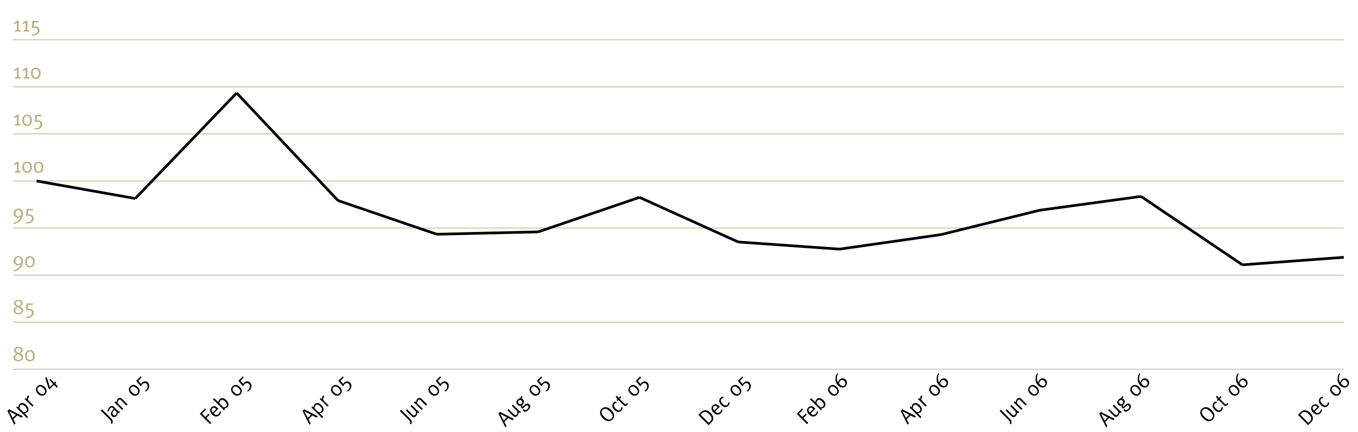


Chart 2: Consumers' Inflation Expectations Index

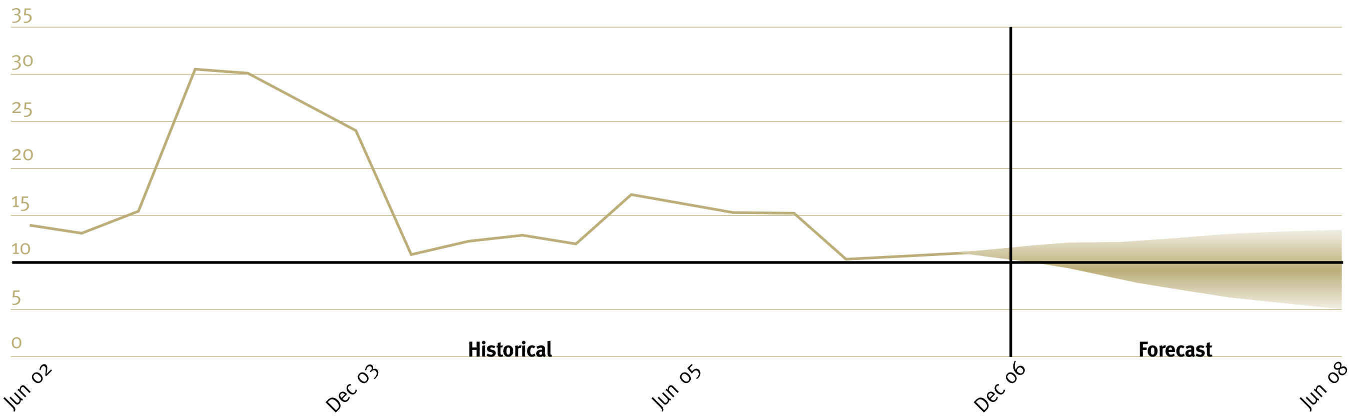


Box 3: Inflation Outlook and Forecast

The Fan Chart Forecast shows that the central path of inflation would remain within the 7 to 9 per cent range under the assumption that broad money growth remains in line with the projected path and exchange rate stability is maintained into 2007. The expected single digit outcome will be influenced by international crude oil prices, the domestic food situation, demands for higher wages in the labour sector and the electricity load management exercise.

Expectations of further increases in international crude oil prices dipped in the course of the year, triggering cuts in domestic petroleum prices. This trend is expected to continue through 2007. The electricity load management exercise is likely to impact on production costs, with the expected losses being passed on to consumers.

Chart 3: CPI Fan Chart Forecast (Date of Forecast Adjustment: October 2006)



3.3 Summary of MPC Decisions

The Monetary Policy Committee (MPC) met six times during the year to review the economy and set the prime rate. The prime rate was changed twice in January and December (see Table 1).

Table 1: Prime Rate Decisions in 2006

Date	Rate	Decision
30th January	14.5	Decreased by 100 basis points
27th March	14.5	Unchanged
22nd May	14.5	Unchanged
31st July	14.5	Unchanged
16th October	14.5	Unchanged
18th December	12.5	Decreased by 200 basis points

3. MONETARY POLICY, INFLATION AND DEVELOPMENTS IN THE GHANAIAN ECONOMY CONTINUED

Box 4: Highlights of MPC Decisions

January Meeting
The positive factors in the outlook were the following:

› There was significant reduction in excess liquidity of the banking system.
› The fuel price shocks of the past year were largely absorbed with the economy remaining resilient.
› The stance of the 2006 Government budget favoured declining inflation.

The downside risk to the outlook was the emerging evidence of falling profit margins, weakening in pricing power and softening of business confidence.

Given the balance of risks, the MPC reduced the prime rate from 15.5 to 14.5 per cent.

March Meeting
The major positive factors in the outlook were:

› continued strong economic fundamentals,
› diminishing inflation expectations,
› relative currency stability,
› pick-up in economic activity and
› rising general business confidence.

The downside risks in the outlook were:

› The continuing volatility of crude oil prices and the potential for the pass-through of its effects into domestic cost and prices
› Labour agitations and unsettled wage negotiations in the public and private sectors.

In the circumstances, the prime rate was left unchanged at 14.5 per cent.

May Meeting
The major positive factors were:

› Deepening macroeconomic stability and expansion in private sector credit
› Strong export growth and increasing private inward remittances.
› Firm downward pressure on prices and cost expectations from favourable monetary developments and money market conditions.

The major downside risk remained the high and volatile international oil prices.

Noting that the risks in the outlook for inflation were balanced, the prime rate was kept unchanged at 14.5 per cent.

July Meeting
The major positive factors in the outlook were:

› Relatively high levels of economic activity, stable inflation expectations, falling interest rates and stability in the foreign exchange market.
› Supportive monetary and fiscal developments, providing the underpinnings for economic resilience

The downside risks were:

› Renewed oil price hikes and increasing volatility.
› Labour market unrest due to labour shedding and unsettled wage negotiations.

In the circumstances, the MPC decided to maintain the prime rate at 14.5 per cent.

October Meeting
The major positive factors in the outlook were:

› The impact of international fuel price increases on domestic prices seemed complete.
› Economic activity was at a robust pace, driven by exports and domestic demand.
› The external payments position was resilient, notwithstanding the highly volatile and rising oil prices.
› Fiscal policy remained expansive, as accelerated execution of the supplementary budget appropriations further stimulated demand.

The downside risks in the outlook were:

› The continuing impact of severe oil price volatility in the past on current market expectations, along with its significant implications for cost-price behaviour and domestic demand growth, against the backdrop of uncertainties and build-up of wage pressures in the domestic labour market.
› The inadequate supply of electricity and its adverse impact on the economy.

In the circumstances, the Committee decided to maintain the prime rate at 14.5 per cent.

December Meeting
The positive factors in the outlook were:

› Subdued inflation expectations
› Continued stability of the cedi on the foreign exchange market
› Effective containment of high and volatile oil price increases, underpinned by supportive fiscal policies.
› Expected efficiency gains and commitment to macro-stability with the re-denomination of the cedi in 2007.

The downside risks were:

› The undercurrents of demand for appropriate wage and living conditions
› The cost pressures from load shedding in the energy sector and the adverse effect on competitiveness and output.

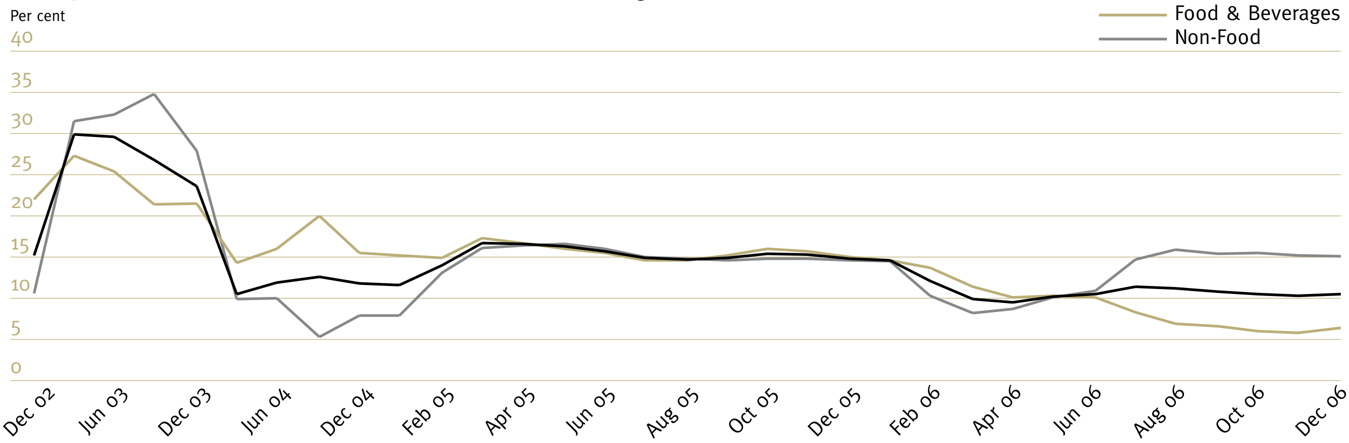
In the circumstances, the MPC decided to reduce the prime rate from 14.5 per cent to 12.5 per cent.

3.4 Price Developments

The year saw inflation drop significantly to just above the single digit target set for the year. This favourable development was achieved amidst volatile world oil prices, which resulted in several upward adjustments of the domestic fuel prices in the review year.

Headline inflation, measured as the year-on-year changes in consumer price index, dropped significantly from 14.8 per cent recorded at the end of December 2005 to 10.5 per cent by the end of December 2006. The fall in the rate of inflation reflected a combination of improved food supply conditions in the market for foodstuffs, a relatively stable exchange rate environment and a well crafted monetary policy to contain inflation expectations often associated with the fuel price shocks to the economy.

Chart 4: Combined, Food and Non-Food Inflation (Year-on-Year Changes)



As regards developments in the sub-components, the major sources of pressures on the consumer price index during the year came from the transport and communications, household goods, operations and services, as well as alcohol and tobacco sub-sectors of the economy, while changes in the sub-component indices of the other sectors were largely moderated and within single digit levels.

Table 2: Component Analysis of the Consumer price Index: January to December Changes

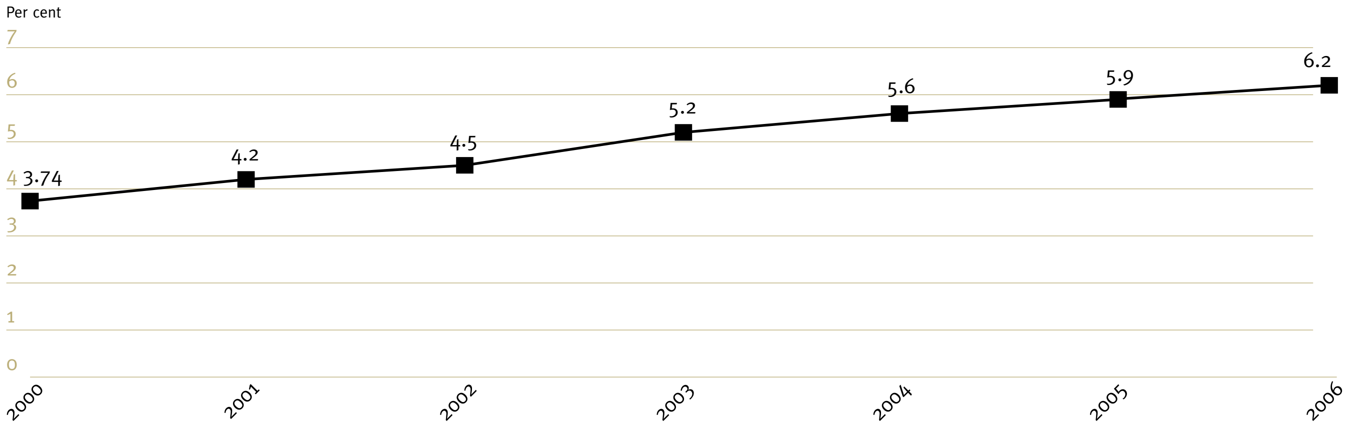
		Food	Non-Food							
Year	Combined	Food and Beverages	Alcohol and Tobacco	Clothing and Footwear	Housing and Utilities	Household Goods, Operations and Services	Medical Care and Health Expenses	Transport and Communications	Recreation Entertainment, Education and Cultural Services	Miscellaneous Goods and Services
2000	40.5	24.3	46.9	56.1	67.6	83.1	31.6	50.4	30.2	57.7
2001	21.3	16.7	26.7	27.4	35.5	13.1	12	25.6	28.8	18.8
2002	15.2	21.9	15.8	7.1	22	9.8	15.8	4.2	11.6	8.9
2003	23.6	21.5	17.6	13.6	63.8	19.8	3.9	54.7	18.4	18
2004	11.8	15.5	6.5	4.7	19.2	2.6	20.7	7.5	-0.2	2.5
2005	14.8	15.0	9.5	9.0	16.8	11.4	22.5	34.0	22.9	10.5
2006	10.5	6.4	12.4	4.8	16.6	15.3	8.8	32.6	6.1	7.5

3. MONETARY POLICY, INFLATION AND DEVELOPMENTS IN THE GHANAIAN ECONOMY CONTINUED

3.5 Economic Activity and Real GDP Performance

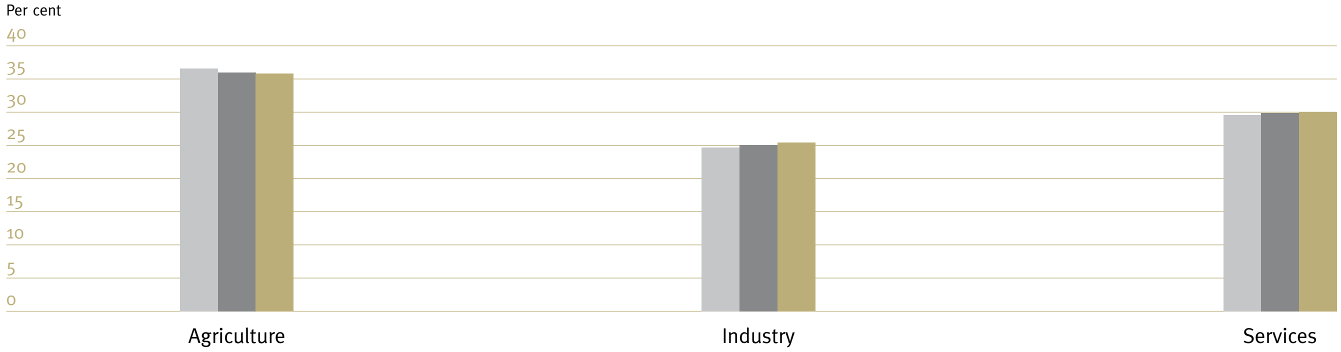
The economy grew at an increasing rate for the sixth consecutive year. Growth in 2006 was 6.2 per cent, exceeding the target of 6 per cent and the growth rate of 5.9 per cent recorded in 2005 (see Chart 5). This growth was mainly driven by significant gains in the Industry and Services sectors (see Chart 6). Other real sector indicators such as income and corporate tax collections, workers contributions, job vacancies, cement production, vehicle registration and international tourists arrivals showed improvement during the year.

Chart 5: GDP Growth Rate



The agricultural sector grew by 5.7 per cent in 2006 as against 4.1 per cent for the corresponding period of 2005. The sector's share as a percentage of GDP declined marginally from 36 per cent in 2005 to 35.8 per cent in 2006. The agricultural sector growth rate was below the targeted growth rate of 6.2 per cent due mainly to the Cocoa and Forestry sub-sectors. The industrial sector grew by 7.3 per cent in 2006 compared with 7.7 per cent achieved in 2005, with its contribution to GDP improving from 25.1 per cent in 2005 to 25.4 per cent in 2006. The Services sector on the other hand, grew by 6.5 per cent in 2006, thus exceeding the target of 6.2 per cent for the year. Its share of GDP improved marginally from 29.9 per cent in 2005 to 30.0 per cent during 2006.

Chart 6: Share of Overall GDP by All Sectors



	Agriculture	Industry	Services
2004	36.6	24.7	29.6
2005	36.0	25.1	29.9
2006	35.8	25.4	30.0

Source: Ghana Statistical Service

Production

The production sector faced enormous challenges in the year as it was hit with high production costs due to the steep rise in crude oil prices and the energy crisis. Nevertheless, the sector performed reasonably well as evidenced by improved performance of the various sub-sectors.

Cement production improved significantly with a growth rate 6 per cent in the year. Total production for the year was 2,010,324 metric tonnes as against 1,896,325 metric tonnes produced in 2005.

Production of cocoa beans increased from 494,066 tonnes (valued at $818.45 million) in 2005 to 657,184 tonnes (valued at $1,041.05 million) in 2006, indicating 33.0 per cent growth (see Chart 7). The volume of finished cocoa products also increased notably from 42,875.64 tonnes (valued at $89.91 million) in 2005 to 78,697 tonnes (valued at $146.39 million) in 2006, indicating 83.5 per cent growth.

Gold exports for 2006 were valued at $1,277.26 million (2,120,230 ounces) compared with $945.82 million (2,124,119 ounces) in 2005, representing 35 per cent growth in value terms (see Chart 8). Higher prices on the international markets accounted for the improved earnings from gold.

Total manganese exports increased by 9 per cent in 2006 to $40.64 million (1,804,155 tonnes) from $37.28 million (1,915,357 tonnes) in 2005.

Diamond exports valued at $31.28 million (978,070 tonnes) were recorded in 2006 compared to $35.66 million (1,013,039.78 tonnes) in 2005, a dip of 12.2 per cent.

Total production of aluminium was 64,743.34 metric tonnes valued at $167.04 million.

Chart 7: Cocoa Beans and Products

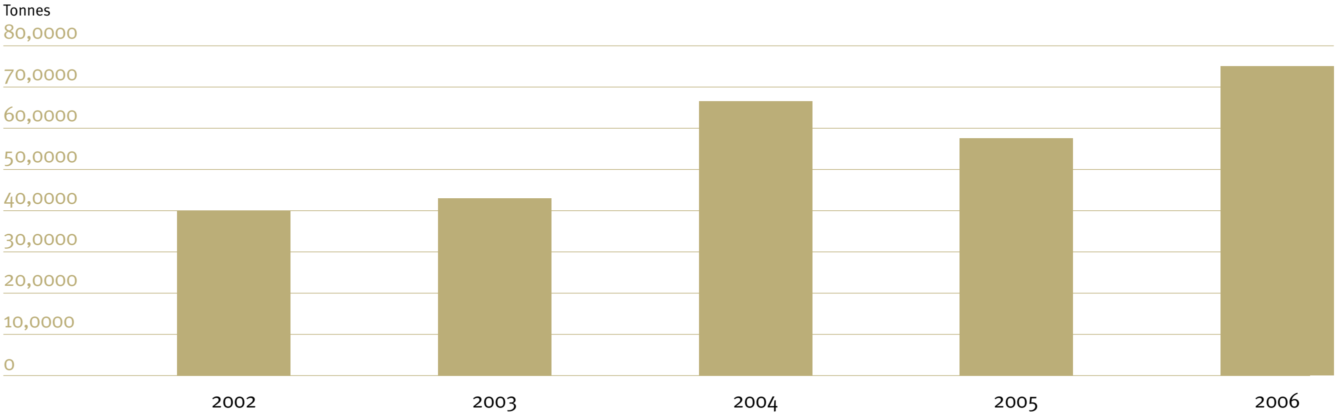
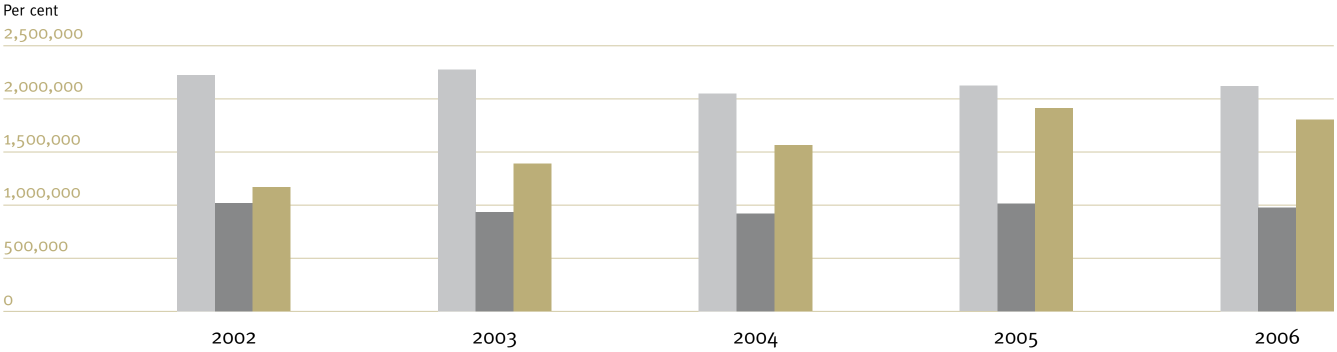


Chart 8: Gold, Diamond and Manganese

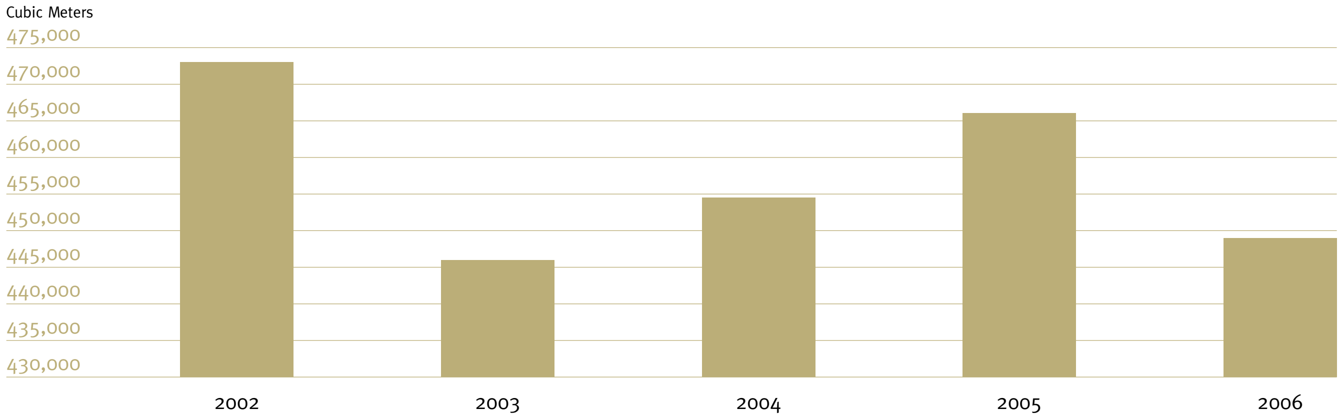


	2002	2003	2004	2005	2006
Gold	2,226,496	2,277,764	2,049,476	2,124,119	2,120,230
Diamonds	1,018,417	936,244	921,237	1,013,040	978,070
Manganese	1,168,997	1,390,529	1,566,828	1,915,357	1,804,155

3. MONETARY POLICY, INFLATION AND DEVELOPMENTS IN THE GHANAIAN ECONOMY CONTINUED

The Forestry sub-sector exported 449,296 cubic metres of timber and timber products (valued at $204.50 million) as against 466,155 cubic metres (valued at $266.54 million) in 2005, thus suggesting a negative growth of 23.2 per cent in value terms. The dip in performance of the forestry sub-sector affected the growth of the agricultural sector.

Chart 9: **Timber & Timber Products**



3.6 Monetary Developments

Monetary policy in 2006 remained focused on reducing inflation to low and stable levels. To this end, the Bank maintained a tight monetary policy stance throughout the year. Open market operations were intensified to mop up excess liquidity while the minimum primary reserve requirements for the deposit money banks was maintained at 9 per cent throughout the year.

Money Supply

Broad money supply including foreign currency deposits (M2+) increased from 14.3 per cent in 2005 to 38.8 per cent in 2006. This development was underpinned by strong growth in savings and time deposits (47.5 %) and demand deposits (43.7%) during the period. The increase in M2+ resulted from the expansion in net foreign assets (NFA) of the banking system and net domestic assets (NDA).

Table 3: Sources of Change in Total Liquidity, M2+ (Billion Cedis)

	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2005 Chg (%)	Dec 2006 Chg (%)
1. Total Liquidity (M2+)	**15,368.0**	**21,173.9**	**26,667.3**	**30,467.8**	**42,302.5**	**14.3**	**38.8**
A. Broad Money Supply (M2)	**11,814.7**	**16,597.9**	**20,986.4**	**23,869.7**	**33,278.1**	**13.7**	**39.4**
i. Currency with Non Bank Public	4,671.6	6,337.8	7,303.4	8,025.9	10,196.0	9.9	27.0
ii. Demand Deposits	3,546.4	5,035.0	7,280.7	7,483.5	10,752.4	2.8	43.7
iii. Savings and Time Deposits	3,596.7	5,225.1	6,402.3	8,360.3	12,329.7	30.6	47.5
B. Foreign Currency Deposits	**3,553.3**	**4,576.0**	**5,680.9**	**6,598.1**	**9,024.4**	**16.1**	**36.8**
2. Sources	**15,368.0**	**21,173.9**	**26,667.3**	**30,467.8**	**42,302.5**	**14.3**	**38.8**
A. Net Foreign Assets (NFA)	**4,290.3**	**10,516.8**	**13,956.1**	**15,631.4**	**21,806.7**	**12.0**	**39.5**
BOG	2,256.4	8,531.3	11,070.7	12,995.5	18,876.1	17.4	45.3
DMBs	2,033.9	1,985.5	2,885.4	2,635.9	2,930.6	-8.6	11.2
B. Net Domestic Assets (NDA)	**11,077.7**	**10,657.1**	**12,711.2**	**14,836.4**	**20,495.8**	**16.7**	**38.1**
i. Claims on Government (net)	8,553.8	7,453.3	12,569.1	13,224.3	14,720.2	5.2	11.3
BOG	2,867.0	2,545.9	6,231.1	5,011.1	4,845.4	-19.6	-3.3
DMBs	5,686.8	4,907.4	6,338.0	8,213.2	9,874.8	29.6	20.2
ii. Claims on Public Sector	7,007.2	10,252.8	2,184.3	3,338.4	4,361.7	52.8	31.5
BOG (net)	0.0	0.0	-183.8	35.7	17.2	-119.4	25.1
DMBs	7,007.2	10,252.8	2,368.1	3,302.7	4,344.5	39.5	31.5
iii. Claims on Private Sector	271.0	7,911.7	9,894.3	14,565.0	20,851.1	47.2	42.2
BOG (net)	271.0	-140.3	116.7	110.3	210.8	-5.5	114.9
DMBs		8,052.0	9,777.6	14,454.7	20,640.3	47.8	42.8
iv. Other Items (Net) (OIN)[1]	-4,754.3	-14,960.7	-11,936.5	-16,291.3	-19,437.2	36.5	18.3

[1] Includes Revaluation Account

The NFA rose by 39.5 per cent mainly on account of strong export receipts from cocoa and relief granted under the Multilateral Debt Relief Initiative (MDRI) during the year. The NDA also firmed up by 38.1 per cent from increases in the banking system net claims on the private sector (42.2%), public sector (31.5 %) and Government (11.3%). These increases were partially offset by a 18.3 per cent decline in Other Items Net (OIN).

Interest rates on the money market continued to respond to the easing of the prime rate during the year. Money market interest rates eased downwards with the 91-day Treasury bill rate dropping from 11.77 per cent at end December 2005 to 10.19 per cent at end December 2006. Average base rates of banks also declined steadily from 24 per cent at the beginning of the year to 19 per cent.

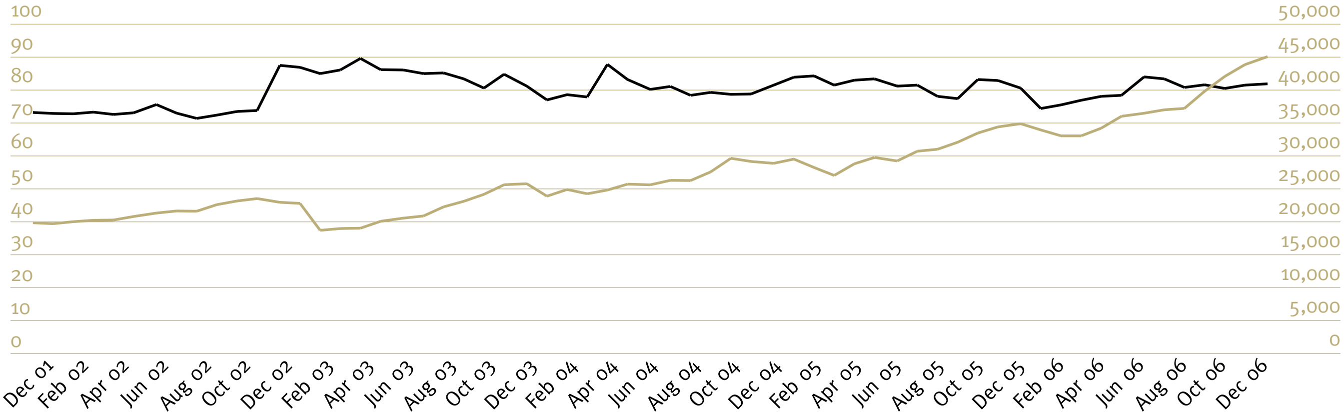
3. MONETARY POLICY, INFLATION AND DEVELOPMENTS IN THE GHANAIAN ECONOMY CONTINUED

Credit

The stock of credit extended by the Deposit Money Banks (DMBs) to public and private institutions as at the end of December 2006 totaled ¢25,197.6 billion, indicating an annual growth rate of 40.5 per cent. This may be compared with the 40.0 per cent increase recorded in December 2005. In real terms however, total credit increased by 27.1 per cent during the review period, compared to the 21.9 per cent achieved a year ago.

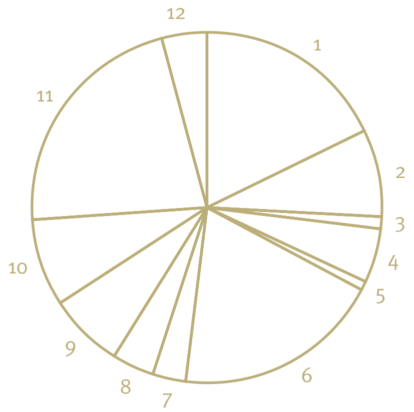
Analysis of the composition of the stock of credit revealed the private sector continued its dominance of access to credit. The sector attracted a share of 81.9 per cent during the review period with the remaining 18.1 per cent accessed by the public sector.

Chart 10: **Credit to the Private Sector**



The concentration of allocated credit continued to be in favour of 3 sectors, namely; Commerce & Finance (22.6 %), Manufacturing (18.5%) and Services (18.4%). The three sectors together accounted for 59.5 per cent of total outstanding credit during the review period. The Export Trade sector was the least favoured (1.3%) in terms of allocated credit by the DMB's which is quite surprising considering the positive impact this sector has on Ghana's balance of payments.

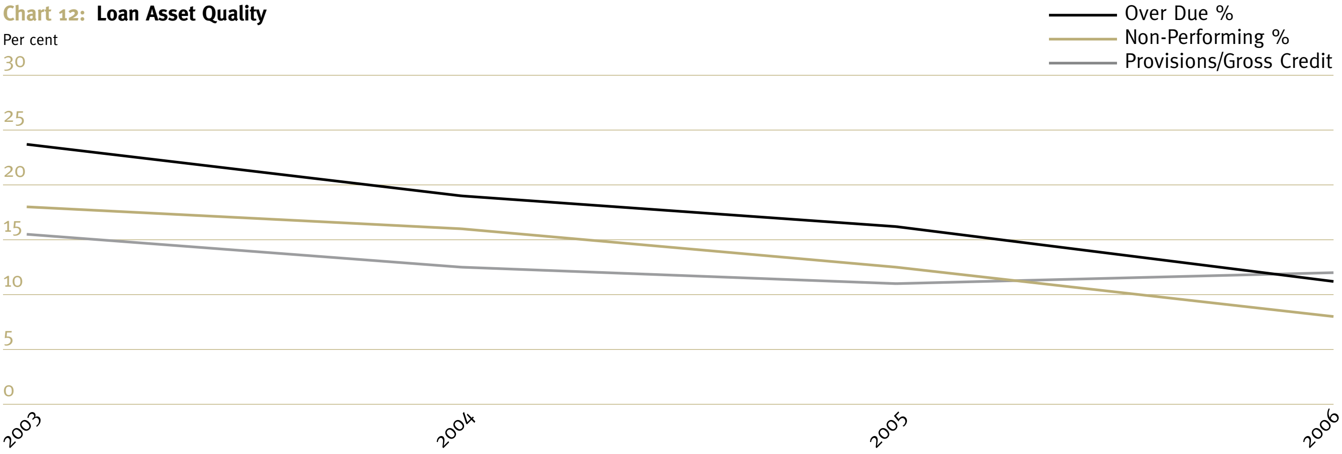
Chart 11: **Sectoral Shares of Credit as at end-December 2006**



1. Services (18%)
2. Miscellaneous (8%)
3. Cocoa Marketing (1%)
4. Agric, For. And Fish (5%)
5. Export Trade (1%)
6. Manufacturing (19%)
7. Trans., Stor., & Comm (3%)
8. Mining & Quarry (4%)
9. Import Trade (7%)
10. Construction (8%)
11. Commerce & Finance (22%)
12. Elect., Gas & Water (4%)

Distribution of the annual flow of outstanding credit of DMB's over the period also remained significant in the Services, Manufacturing, Commerce & Finance sectors. The quality of the loan portfolio as measured by the NPL ratio improved from 13.0 per cent to 7.8 per cent by end-December 2006 (see Chart 12).

Chart 12: Loan Asset Quality

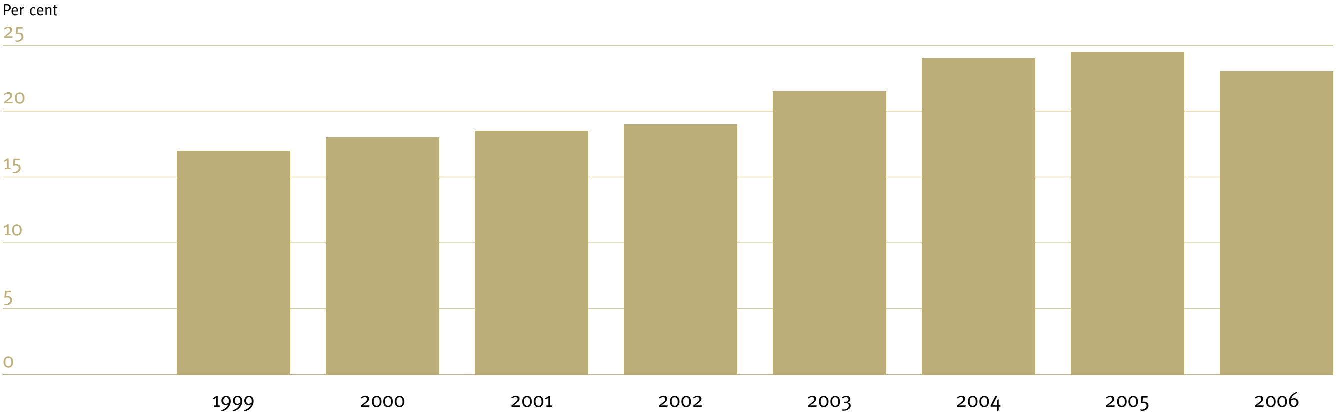


3.7 Fiscal Developments

Fiscal policy was aimed at further reducing the domestic debt-GDP ratio to ease the pressure on interest rates and crowd-in the private sector.

Total revenue and grants amounted to ¢31,917.7 billion, 6.5 per cent below the budget target of ¢34,135.6 billion but 13.0 per cent higher compared to the outturn for 2005. In relation to nominal GDP, domestic revenue reduced from 24.0 per cent at the end of 2005 to 22.3 per cent at end-2006, indicating that revenue mobilization could not keep pace with growth in economic activity (see Chart 13).

Chart 13: Domestic Revenue as % of GDP

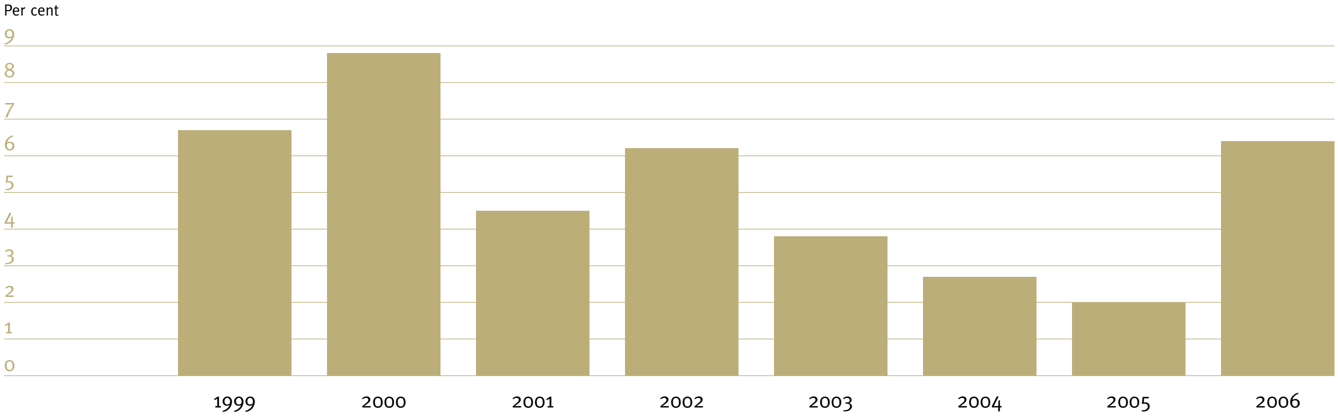


3. MONETARY POLICY, INFLATION AND DEVELOPMENTS IN THE GHANAIAN ECONOMY CONTINUED

Total expenditure amounted to ¢40,094.2 billion, 3.1 per cent higher than projected and 34.1 per cent higher than the total outlay in 2005. The share of total expenditure in GDP was 34.9 per cent.

These developments resulted in a budget deficit of ¢8,970.9 billion (7.8% of GDP) compared with the end-year target of ¢5,100 billion (4.5% of GDP) and an actual deficit of ¢2,233.0 billion (2.3% of GDP) at the end of 2005 (see Chart 14).

Chart 14: **Budget Deficit as % of GDP**



The deficit for the year, together with a net foreign inflow of ¢2,249.7 billion, exceptional financing of ¢927 billion and payments arising out of maturing GGILBs, led to higher Net Domestic Financing (NDF) of ¢4,765.2 billion (4.24% of GDP) compared with a target ¢215 billion (0.19% of GDP). The main reasons for the higher borrowing were unanticipated transfers to VRA as a result of the energy crisis and higher wage demands. Consequently, the domestic debt-to-GDP target of 8.7 per cent was not realised, as the year ended with a ratio of 14.7 per cent.

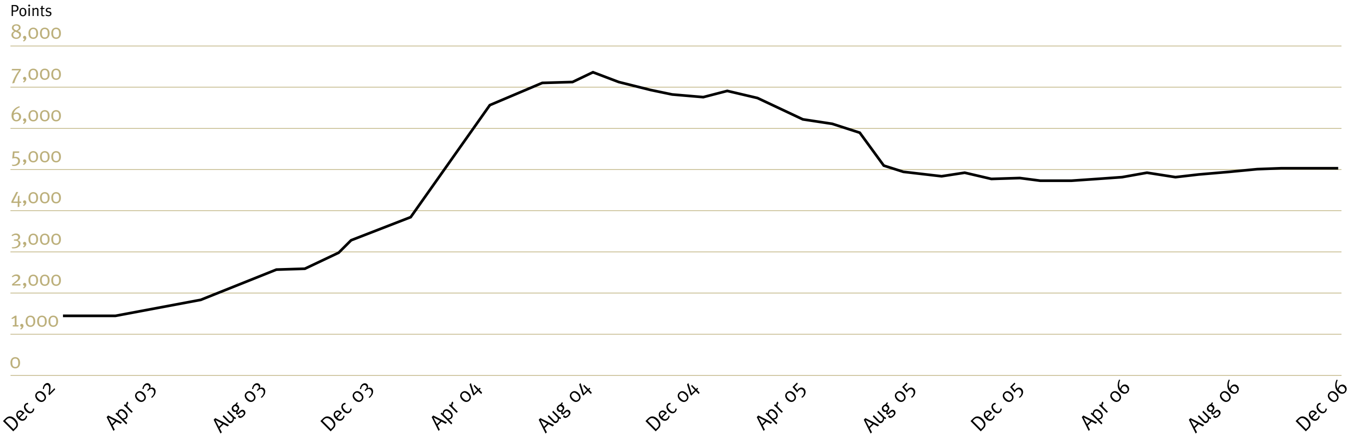
3.8 Stock Market Developments

Market activity experienced modest growth compared to the previous year's performance.

The GSE All-Share Index

Overall, the index closed the year at 5,006.0 points, an increase of 4.9 per cent over the previous year's close of 4,769.0 points (see Chart 15).

Chart 15: **GSE All-Share Index**



Market Capitalization

Market capitalisation increased from ¢91,857.3 billion to ¢112,496.4 billion mainly due to new listings and increase in share prices. Rights and Bonus Issues also contributed to the increase in market capitalisation.

New equities listed on the Exchange were Ayrton Drug Manufacturing Limited, Ecobank Ghana Limited, Ecobank Transnational Incorporated, Standard Chartered Bank and Transaction Solutions Ltd.

Bond market

During the year, 35 Government of Ghana (GOG) 2-year fixed rate notes totalling ¢2,040.2 billion and 27 GOG 3-year fixed rate bonds amounting to ¢416.29 billion were issued on the Ghana Stock Exchange. Standard Chartered Bank's ¢350.0 billion medium-term notes were also issued on the Exchange.

HFC's corporate bonds worth $40,000.0 were exchanged while ¢1,210.4 billion worth of Government of Ghana bonds were sold.

3.9 The External Sector

Balance of Payments

The overall balance of payments improved by US$330.78 million in the year to US$415.12 million (3.4% of GDP). The improvement was mainly due to a large surplus on the capital and financial account that more than offset an increase in the deficit on the current account.

Table 4: **Balance of Payments (in millions of US Dollars)**

	2002	2003	2004	2005	2006
A. Current Account	**-31.93**	**278.03**	**-315.85**	**-773.40**	**-812.67**
Trade Balance	-691.83	-670.43	-1,592.82	-2,545.10	-3,027.01
Export (fob)	2,015.19	2,562.39	2,704.46	2,802.21	3,726.67
Import (fob)	-2,707.02	-3,232.82	-4,297.28	-5,347.31	-6,753.68
Services (net)	-66.00	-269.78	-356.17	-166.60	-136.51
Credit	554.90	630.00	702.31	1,106.49	1,396.31
Debit	-620.90	-899.78	-1,058.48	-1,264.40	-1,532.82
Transfers (net)	900.20	1,399.20	1,830.98	2,125.42	2,478.20
Official (net)	220.20	382.01	543.93	575.66	833.62
Private (net)	680.00	1,017.19	1,287.05	1,549.76	1,644.58
Income (net)	-174.30	-180.96	-197.84	-187.11	-127.36
B. Capital & Financial Account	**-38.62**	**340.35**	**201.57**	**834.48**	**1,053.44**
Official	-115.18	85.77	52.45	141.14	212.64
Private	105.66	199.91	331.98	559.29	817.84
Short-term	-29.10	54.67	-182.86	134.05	22.96
Errors of Omission	110.35	-60.07	103.82	23.25	174.34
Overall Balance	39.80	558.31	-10.46	84.34	415.12

3. MONETARY POLICY, INFLATION AND DEVELOPMENTS IN THE GHANAIAN ECONOMY CONTINUED

The current account recorded a deficit of US$812.67 million (6.49 % of GDP), an increase of US$39.27 million compared with what was recorded in 2005. This development was characterised by deterioration in the trade balance that more than offset improvements in the services, transfers and income accounts.

During the period under review the deficit on the trade balance widened by US$481.91 million to US$3,027.01 million, due to a large increase in imports despite increased export earnings. Imports rose to US$6,753.68 million from US$5,347.31 million in 2005, mainly due to increased imports of intermediate and capital goods to support investment activities in the economy. The improvement in export earnings by US$924.46 million to US$3,726.67 million was mainly on account of increased earnings from gold and cocoa beans. The increase in gold earnings mainly reflected a price effect while the increase in cocoa beans earnings was on account of volume effect.

The services, transfers and income accounts recorded improvement in their respective balances. The deficit on the services account narrowed by US$30.09 million to US$136.51 million on account of significant increases in tourist receipts. The net income payments slowed down to US$127.36 million compared to US$187.11 million in 2005. On year-on-year basis the net receipts on transfers account also improved to US$2,478.20 million, an increase of US$352.78 million compared to 2005.

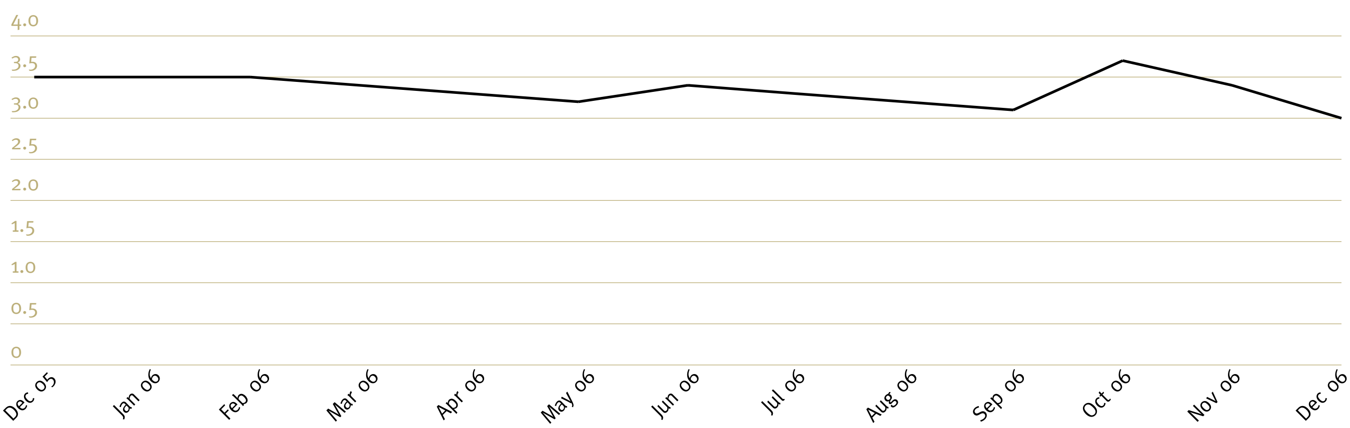
Capital and Financial Account

The capital and financial account recorded a surplus of US$1,053.44 million, compared to US$834.48 million in 2005. The development was as a result of significant increases in net private capital inflows that more than offset a sharp drop in net short-term receipts. On yearly basis net private capital inflows increased by US$258.55 million to US$817.84 million whereas net short-term capital receipts declined by US$111.09 million to US$22.96 million.

Reserves

Foreign exchange reserves of the Bank went up by US$371.8 million to US$2,266.7 million at the end of December 2006. This was mainly the result of increased export earnings, receipts of foreign aid and debt cancellation under the Multilateral Debt Relief Initiative (MDRI). This level of reserves was, however, sufficient to cover 3.0 months imports of goods and services compared with 3.5 months at the end of December 2005, due to a surge in merchandise imports (see Chart 16). The stock position of net international reserves, at the end of December 2006 amounted to US$1,828.20 million, an improvement of US$488.65 million compared to the stock position at the end of December 2005.

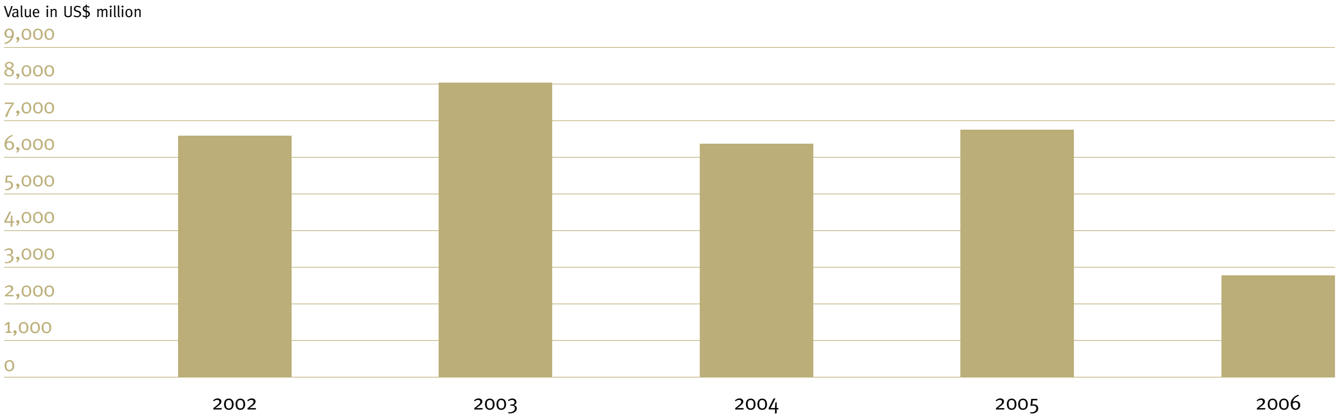
Chart 16: Imports Cover



External Debt

Ghana's overall public and publicly guaranteed external debt stood at US$2,773.4 million at the end of December 2006, showing a decline of US$3,986.4 million over the previous year's stock level. The sharp drop in the debt stock in the review year was mainly the result of the cancellation of Ghana's debt under the Multilateral Debt Relief Initiative (MDRI). Under this arrangement, the International Monetary Fund cancelled US$381.0 million, African Development Bank (US$486 million) and International Development Association (US$2,940 million).

Chart 17: External Debt Stock



Debt Service Payments

The drop in the external debt stock has eased the debt service burden on the economy. Total external debt service (excluding obligations to the IMF) amounted to US$123.4 million, lower than the 2005 payments of US$144.1 million.

Table 5: Selected Debt Indicators

	2004	2005	2006
Debt Stock (US$'m)	6,367.9	6,759.8	2,773.4
Debt Stock/Exports	1.9	1.7	0.6
External Debt Service/export of goods & services	5.7	5.6	3.1
Debt Stock/Domestic Revenue	3.0	2.6	0.9
External Debt Service/Domestic Revenue	9.3	8.4	5.3
External Debt Service/GDP	2.2	2.0	1.3
Debt Stock/GDP	72.2	63.4	18.7

3. MONETARY POLICY, INFLATION AND DEVELOPMENTS IN THE GHANAIAN ECONOMY CONTINUED

3.10 Foreign Exchange Market

The cedi performed remarkably well despite the global imbalances and instability created by high crude oil prices. On the inter-bank market, the cedi depreciated by about 1.1 per cent against the US dollar in 2006 compared with a depreciation of 0.9 per cent during the corresponding period of 2005. The cedi remained relatively weak against the British pound sterling and the euro as it depreciated by 13.4 per cent against the British Pound sterling and 10.9 per cent against the euro currency in 2006 respectively. Total forex transactions in the foreign exchange market increased by 13.58 per cent to US$7,228.29 million by end-2006.

Chart 18: Exchange Rate Movements (Year-to-Date Depreciation)

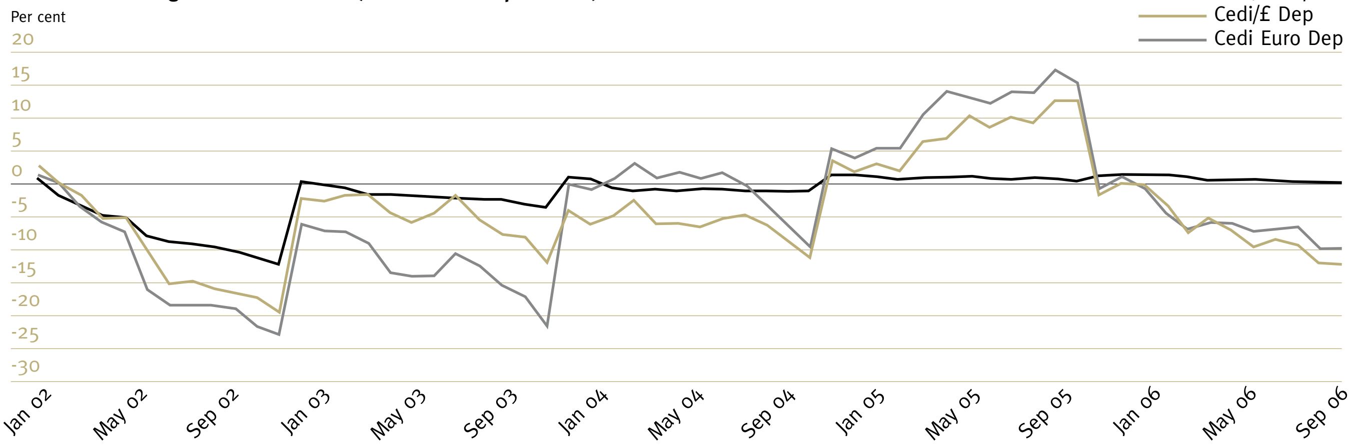


Table 6: Selected Economic Indicators

	2002	2003	2004	2005	2006
Real GDP Growth (%)	4.5	5.2	5.6	5.9	6.2
Inflation					
Year-on-year	15.2	23.6	11.8	14.8	10.5
Annual Average	14.8	26.7	12.6	15.2	10.9
Exchange Rate (End-period Transaction Rates)					
¢/US$	8,438.80	8,852.30	9,051.30	9,130.82	9,235.3
¢/Pound Sterling	13,305.20	15,296.00	17,411.50	15,673.30	18,102.7
¢/Euro	8,511.60	10,986.30	12,309.00	10,814.97	12,144.5
Commodity Prices					
Cocoa (US$/tonne)	1,260.00	1,949.50	1,586.90	1,524.69	1,719.85
Gold (US$/fine ounce)	309.50	364.50	409.90	445.28	628.9
OIL, IPE Brent Crude (US$/Barrel)	25.00	28.40	37.80	55.44	62.5
External Sector					
Exports of goods and services (US$'m)	2,570.1	3,192.4	3,406.8	3,908.70	5,126.4
Imports of goods and services (US$'m)	3,327.9	4,132.6	5,355.7	6,611.7	8,261.9
Current Account Balance (US$'m) -	31.9	278.0	-315.9	-773.4	-810.3
Overall Balance of Payments (US$'m)	39.8	558.3	-10.5	84.3	415.1
Terms of Trade Index	88.76	71.35	49.35	39.14	38.09
Gross International Reserves (end period, in US$'m)	640.4	1,425.6	1,732.4	1,894.9	2,266.7
(months of imports of goods and services)	2.2	3.9	3.8	3.5	3.0
External Debt (US$'m)	6,585.3	8,034.6	6,367.9	6,759.8	2,773.4
Interest Rates (%)					
Bank of Ghana Prime Rate	24.5	21.5	18.5	15.5	12.5
91-day Treasury Bill	26.6	18.7	17.1	11.45	10.7
182-day Treasury Bill	27.2	20.3	17.9	12.78	10.7
1-year note	27	20.5	17.9	16.5	13.5
2-year Rate*			20	17	13.5
3-year Rate*			21.5	17.5	14
Monetary Aggregates Growth (Year-on-Year)					
Reserve Money	42.6	33.4	18.8	11.2	30.8
Broad Money (M2+)	50	37.8	26	14.1	38.8
Broad Money (M2)	50	40.5	26.6	13.8	39.4
Nominal GDP (¢bn)	48,862.00	66,158.00	79,803.70	97,260.60	114,903.20
Government Budget (% of GDP)					
Total Revenue	18.1	20.8	23.8	23.8	22.3
Grants	3.1	4.7	6.1	5.2	5.5
Total Expenditure	26.1	28.7	33.3	30.7	33.8
Overall Balance (including Grants)	-6.7	-4.6	-3.7	-2.3	-7.8
Domestic Primary Balance	2.4	2.3	0.7	3.4	-4.8

* Introduced in September 2004

4. DEVELOPMENTS IN THE BANK AND NON-BANK FINANCIAL INSTITUTIONS

4.1 Overview

The bank and non-bank financial institutions recorded significant growth during the year due to the relatively stable macroeconomic environment. In the face of stiff competition, banks introduced new products, services and strategies in the market for customer funds. In this regard, most of them extended their working hours and provided services on Saturdays.

To enhance transparency, the Bank commenced the publication of banks' interest rates and charges in the newspapers and on the Bank's website. The Bank also collaborated with the Ghana Association of Bankers with respect to the introduction of the Annual Percentage Rate (APR) system for pricing of credit to ensure full disclosure. Banks would be required to display the full cost of borrowing on the customer's loan sheet with effect from 2007.

4.2 The Banking System

Structure

All banks were in compliance with the minimum capital of ¢70.00 billion required for universal banking business by the deadline of December 31, 2006. Three new banks were licensed during the year, bringing the total number of banks to twenty-four. Two new rural banks were also licensed and commenced operations during the year (see Chart 19).

Risk-Based Supervision

Bank of Ghana introduced its framework for Risk-Based Supervision to meet the new challenges in the banking industry with respect to new technologies, branch expansion, product innovation, size and speed of financial transactions, and as a precursor to the full implementation of the Basel II Accord. This framework involves the critical identification of risks associated with the operations of banks and the assessment of management oversight functions of risks in order to ascertain the effectiveness of these oversight functions to mitigate the impact of risks. In the process, banks would be compelled to focus more on their risk management systems to facilitate their improvement and thereby improve the overall risk management functions within the institutions.

The Bank of Ghana seeks to maximise the use of its supervisory resources through this new framework, to ensure that it engages the management of banks to focus on aspects of their operations that are likely to adversely affect the safety and soundness of their institutions.

Licensing Policy

The Bank introduced a new licensing policy, which allows only well established foreign banks into the domestic banking system. The policy is geared towards supporting the development of a well capitalised and robust financial system.

Assets and Liabilities

Total assets of banks grew by 40.9 per cent to ¢51,837.18 billion, which represented 90.17 per cent of the total assets of the bank and non-bank financial institutions. The Rural and Community Banks accounted for 5.01 per cent while the share of NBFIs was 4.81 per cent. The growth was funded mainly by deposits, which increased by ¢9,901.80 billion, representing 65.80 per cent of the growth in assets.

The increase in total assets of the industry reflected mainly in net loans and advances which increased by ¢7,346.85 billion. Cash and Bank balances and investments also went up by ¢4,470.78 billion and ¢2,375.18 billion respectively (see Chart 20).

Chart 19: Structure of the Banking Sector

BANK OF GHANA

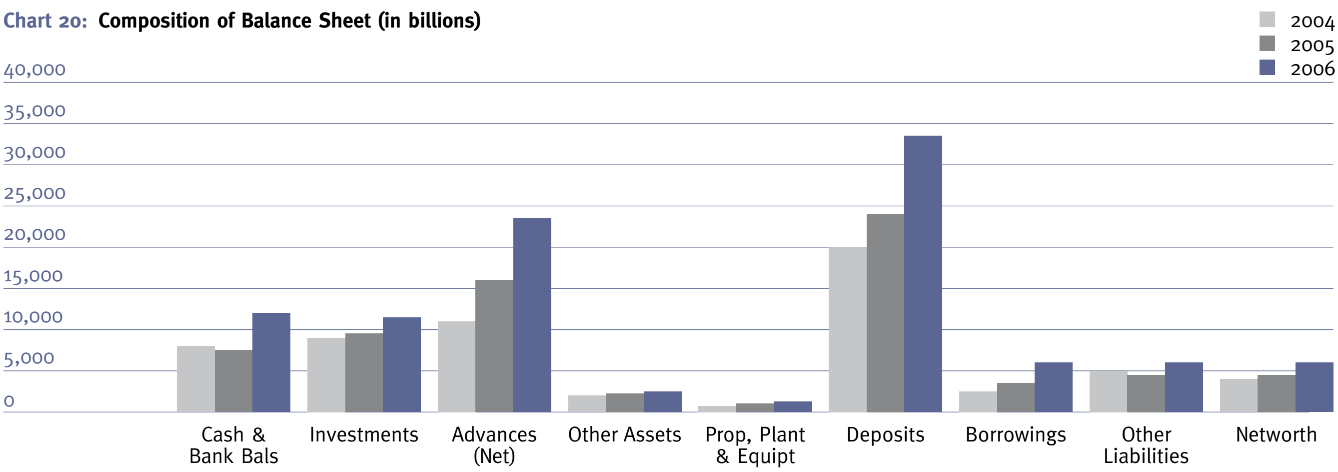
Development Banks (3)
- Agricultural Development Bank
- Prudential Bank
- National Investment Bank

Universal Banks (16)
- HFC Bank
- Ecobank
- Merchant Bank
- CAL Bank
- Stanbic Bank
- United Bank for Africa
- Barclays Bank
- Zenith Bank
- First Atlantic Merchant Bank
- Amalgamated Bank
- Ghana Commercial Bank
- Standard Chartered Bank
- International Commercial Bank
- Guaranty Trust Bank
- Intercontinental Bank
- Fidelity Bank

Commercial Banks (4)
- SG-SSB Bank
- Unibank
- Metropolitan & Allied Bank
- The Trust Bank

ARB APEX Bank
- Rural Banks (122)

Chart 20: Composition of Balance Sheet (in billions)



Profitability

Profitability in the banking sector on the whole improved as evidenced by the ratios presented in Table 7.

Table 7: Profitability Ratios

	Dec 2003	Dec 2004	Dec 2005	Dec 2006
Return on Assets	6.3	4.6	3.3	4.81
Return on Earning Assets	8.0	5.9	6.3	5.9
Return on Equity	33.4	22.9	24.1	27.5
Net Interest Spread	12.3	8.9	10.8	9.9
Expense to Income	63.9	63.5	68.7	59.3
Net Interest Margin	10.0	9.6	6.5	11.3

Off-Balance Sheet Business

There was an increase in off-balance sheet business as contingent liabilities went up by ¢1,096.23 billion to ¢9,852.70 billion.

Solvency

All banks met the minimum required capital adequacy ratio of 10.0 per cent following their compliance with the minimum capital requirement of ¢70.0 billion.

Liquidity

The liquidity position of the banking industry was generally satisfactory. At the end of the year, banks met the primary reserve requirement of 9 per cent. The industry cash ratio was 9.1 per cent in domestic primary reserves and 12.4 per cent in foreign primary reserves. The maintenance of secondary reserves was abolished in August 2006.

4. DEVELOPMENTS IN THE BANK AND NON-BANK FINANCIAL INSTITUTIONS CONTINUED

Box 5: Statement on Abolition of Secondary Reserves

The Bank of Ghana announces for the information of all banks that the Secondary Reserve Requirement for banks shall be abolished with effect from August 1, 2006.

The Primary Reserve Requirement will continue to be 9.0 per cent against domestic currency deposits and 9.0 per cent against foreign currency deposits.

Table 8: Financial Soundness Indicators

	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006
Earnings Indicators					
Return on Assets (ROA)	7.33	6.21	5.84	4.57	4.40
Return on Equity (ROE)	37.59	32.69	33.68	23.58	25.10
Interest Margin to Gross Income	59.24	63.18	62.87	64.02	55.60
Interest Margin to Total Assets	10.83	10.43	9.94	8.80	8.60
Expenses to Income	44.82	49.98	50.56	67.36	67.00
Loan Interest to Gross Income	50.31	46.22	48.76	50.36	62.00
Management Indicators					
Administrative Expenses to Income	13.61	15.64	17.55	18.14	19.00
Liquidity Indicators					
Portfolio Liquidity:					
Core Liquid Assets to Total Assets	28.9	29.0	25.4	20.69	21.20
Broad Liquid Assets to Total Assets	60.6	57.0	53.5	47.03	46.70
Core Liquid Assets to Short-term Liabilities	36.5	40.8	34.6	42.84	28.00
Broad Liquid Assets to Short-term Liabilities	76.6	80.2	72.8	97.39	61.70
Credit to Deposits	62.0	67.8	68.8	75.10	74.30
Funding Volatility Ratio	62.4	60.5	60.7	61.19	59.40
Asset Quality					
Credits to Total Assets	37.21	41.72	43.96	48.66	43.90
Non Performing Loans	22.73	18.33	16.13	12.98	7.90
Loss/NPLs	55.28	49.51	54.68	56.60	54.10
Loan Provision to Gross Loan	18.19	15.36	13.76	8.50	7.40
Investments to Total Assets	31.68	27.34	28.45	26.84	26.00
Loan Interest to Interest Income	60.75	50.62	56.14	78.66	62.00
Investments to Deposits	52.76	48.72	45.28	41.41	39.40
Capital					
Capital Adequacy Ratio	13.42	9.27	13.94	16.22	15.80

4.3 Rural and Community Banks (RCB)

Under the Rural Financial Services Project, capacity building of RCBs continued in terms of computerisation, logistics support and training of ARB Apex Bank and RCB staff. The computerisation process involved 11 banks in five regions.

4.4 The Non-Bank Financial Institutions (NBFIs) Sector

As at end December 2006, there were thirty-six (36) NBFIs in operation comprising seventeen (17) Finance companies, thirteen (13) Savings and Loans companies, four (4) Leasing companies, one (1) Discount House and one (1) Mortgage Finance company.

The balance sheet of the NBFIs expanded by 13.75 per cent in 2006. The sources of funding for the expansion in assets were shareholders funds, deposits and borrowings. The expansion reflected in mainly loans and advances (¢526.32 billion) cash and bank balances (¢84.17 billion) and fixed assets (¢81.62 billion).

4.5 Investigation and Consumer Reporting

The Bank handled complaints from the general public in respect of unfair banking practices such as high interest rates and bank charges, poor customer services, irregularities in the forex market and dollarization of the economy. There were also fraud investigations, freezing of assets and closure of unlicensed institutions. The Office also responded to various requests from the Serious Fraud Office, National Security Council and Rural and Community Banks.

Table 9: Summary of Cases Handled

Unit	Cases
Consumer Reporting	24
Fraud Investigation	41
Enforcement and Surveillance	121
Total	**186**

5. PAYMENT, CLEARING AND SETTLEMENT SYSTEMS

5.1 Developments in the Payment System

The Bank took bold initiatives to implement policy programmes under the Second Phase of its Payment Systems Development Strategy. These programmes, which constitute the National Electronic Payments System (NEPS), are aimed at providing a framework for electronic delivery of financial services to every segment of the economy on a common platform. The main objective of this project is to deepen financial intermediation by deploying electronic payment products that will meet the needs of the “banked”, “un-banked” and “under-banked”.

The principal components of NEPS are the National Switch and Smartcard Payments System (The Switch), the Cheque Codeline Clearing (CCC) System and the Automated Clearing House (ACH). The procurement of the National Switch was started during the year.

The Switch will support interoperability of ATMs owned by different banks, Electronic Funds Transfer at Point of Sale (EFTPOS) systems, e-money, internet, SMS and telephone banking, among others.

Smart Cards are expected to play a major role in the new electronic payment environment, with cards being used online and offline. The Smart Cards will incorporate biometric authentication features to enhance security and serve the needs of the illiterate population.

The Bank’s oversight activities during the year covered all existing payment, clearing and settlement systems and involved the monitoring and assessment of these systems to ensure adherence to operational rules and compliance with approved standards by all participants. The operations of the various payment, clearing and settlement systems were considered satisfactory. The existing regulatory framework was also reviewed to meet the exigencies of the envisaged payment system environment.

The Bank continued to encourage and support the commercial banks to introduce electronic retail payment products. In response, more banks commenced internet and telephone banking as well as SMS banking in collaboration with some mobile phone companies. More banks also rolled out both ATM on-site and off-site machines.

High Value Payments – The GIS System

The Ghana Inter-bank Settlement (GIS) system, which is Ghana’s real time gross settlement system continued to provide the platform for banks to make high value and or time critical payments on their own behalf and on behalf of their customers in real time and on gross basis.

The system also provided settlement services for the net clearing position of banks in respect of the cheque and credit clearing systems. Also, payments for Treasury bill transactions generated by the Central Securities Depository (CSD) were settled through the GIS.

Payment transactions effected through the system during the year in volume and value terms were 93,103.0 and ¢474,154.4 billion respectively (see Table 10).

Table 10: High Value Payments –The GIS System

	2005	2006
Value (¢ billion)	371,168.5	474,154.4
Volume	48,749.0	93,103.0
Average Value (¢)	7,667.0	5,093.0

5. PAYMENT, CLEARING AND SETTLEMENT SYSTEMS CONTINUED

Low Value Payments – The Cheque Clearing System

The cheques and other debit instruments continued to remain the most important inter-bank payment stream in terms of volume and the most important paper clearing stream in terms of volume and value. It is widely used by businesses for the payment of goods and services and on a limited scale by individuals. The volume and value of cheques cleared in 2006 were 4,967,638.0 and ¢139,389.1 billion respectively (see Table 11).

Table 11: Low Value Payments –The Cheque Clearing System

	2005	2006
Value (¢ billion)	122,290.9	139,389.1
Volume	4,776,690.0	4,967,638.0
Average Value (¢)	25.0	28.0

Low Value Payments – The Paper Credit Clearing System

The credit clearing system increasingly continued to offer a safe and efficient alternative to the cheque system for making small value payments. The desirable attributes of this payment stream resulted in an increase in volume and value for 2006 compared with 2005 (see Table 12).

Table 12: Low Value Payments –The Paper Credit Clearing System

	2005	2006
Value (¢ million)	149,771.6	388, 750.0
Volume	11,260.0	29,963.0
Average Value (¢)	13.3	12.9

5.2 Financial Laws

The Exchange Control Act, 1961 (Act 71), and all its amendment decrees, was repealed with the promulgation of the Foreign Exchange Act, 2006, Act 723.

The ARB Apex Bank Limited Regulations, 2006 (L.I. 1852) was also passed to regulate the operations of the ARB Apex Bank.

Box 6: Statement on the Foreign Exchange Act

The exchange and payments regime in Ghana has been governed by the provisions of the Exchange Control Act, 1961. The Exchange Control Act has been significantly modified over the years through amendments, Bank of Ghana notices and changes in policies that have resulted in the open and liberal exchange and payments regime that operates in Ghana today. However, these changes were not accompanied by a corresponding reform of the existing relevant statutes. This created a situation where the policy direction on foreign exchange transactions was constrained by the Exchange Control Act 1961. As Ghana's economy becomes increasingly integrated into the global economy, it has become necessary to rationalise the laws relating to foreign exchange and provide de jure backing to de facto practices, and streamline the associated reporting and documentation procedures.

The Foreign Exchange Act (Act 723) became law on 29th December 2006. It provides a new statutory framework for foreign exchange payments and transactions in Ghana.

Broadly, there is a shift away from the controls embodied in the Exchange Control Act to monitoring foreign exchange transactions for balance of payments and other purposes. In this regard, and consistent with international best practice, banks will be required to submit reports on all underlying transactions in foreign exchange to the Bank of Ghana.

While the Exchange Control Act placed restrictions on the issuance and transfer of securities as well as external loans contracted between residents and non- residents, under the Foreign Exchange Act, 2006 there is a liberalization of inflows of foreign exchange into Ghana for foreign direct investment purposes. Also loans contracted by residents will no longer require Bank of Ghana approval. Non-residents are now permitted to invest in money market instruments of a tenor of three years or more. The restrictions on foreign holdings of equities listed on the Ghana Stock Exchange have also been lifted.

5.3 Central Securities Depository

Operations of the Central Securities Depository (CSD) were satisfactory during the year under review. The CSD interacted with various international Fund Managers during the year, including Standard Bank of South Africa, UBS Investment Bank, Citigroup Corporate and Investment Banking and ISI Emerging Markets of South Africa. At a workshop during the year, discussions were held with the Director-General of Bourse Regionale Des Valeurs Mobilieres Depositaire Central of La Cote d'Ivoire with regard to the integration of capital markets in the ECOWAS region. In line with its international obligations, the CSD also completed and submitted the Association of Global Custodians (2005-2006) annual questionnaire.

Box 7: The Central Securities Depository Bill

The Central Securities Depository Bill was prepared and put before Parliament in 2006. Its purpose is to provide the legal and regulatory framework for the establishment, operation and regulation of central securities depositories, which contribute immensely to the development and promotion of vibrant primary and secondary money and capital markets. Since 2004, the Bank has been operating a Central Securities Depository.

The Act will provide for the establishment of a depository by any company registered under the Companies Code, 1963 (Act 179) and places the regulation of depositories under the Securities and Exchange Commission.

The authorized business of a depository is as follows:

- to provide central depository services in Ghana, where records of ownership of financial instruments, including equities and other securities will be maintained in electronic form;
- to undertake the clearing and settlement of financial instruments, equities and other securities in book-entry form;
- to provide for the immobilization and dematerialization of securities;
- to provide rules for proper and efficient operation, management and maintenance of depository services to the financial market;
- to facilitate the selling, buying and otherwise dealings in securities and the provision of confidentiality and protection of data held in the depository.

The Act amends the Securities Industry Law, 1993 (PNDCL 333) and repeals Sections 52 and 82 of the Companies Code. By its passage, companies will be able to issue shares in electronic book-entry form and investors can hold them as such.

Its passage into law will facilitate implementation of the Depository's 2007 programme, in collaboration with the Ghana Stock Exchange and the Securities & Exchange Commission. The programme will include public education on the law and benefits of the Depository, with shareholders being encouraged to open accounts and surrender their share certificates for electronic book entries at the Depository.

The Central Securities Depository will also, under the law, be able to undertake Phase II of its operations. Phase I, which begun in 2004 was limited to the admission of Government debt instruments into the Depository. Phase II, which requires the law, will involve the admission of equities and other corporate bonds into the Depository to enhance security and increase the efficiency and speed of trading in them. The improved legal and regulatory environment is expected to encourage automation of securities trading at the Stock Exchange with delivery versus payment, an essential condition for enhanced market efficiency and safety.

The CSD admitted two new banks, bringing the total number of participating institutions to thirty-four. The number of account holders increased by 15.6 per cent to 196,500 at end-December 2006. The status of Fidelity Discount House, which became a bank, was changed accordingly. Back-up connectivity was evaluated and changes made to enhance its efficiency and effectiveness. Wireless modems were procured and distributed to all participants to guarantee adequate internet bandwidth, and to enable participants and Depository Participants' branch offices have remote access to the CSD system through the internet. The CSD Bill was also put before parliament with the possibility for passage in 2007.

6. MAJOR INTERNAL DEVELOPMENTS

6.1 Human Resource Activities

Recruitment and Training

The Bank continued to emphasize capacity building and on-the-job skills development. A total of 120 training programmes for 873 members of Staff was undertaken in pursuit of this objective. Seven new employees were engaged to strengthen selected core departments (see Table 13).

Table 13: Training Programmes in 2006

Programme	No. of Courses	Participants
1. Foreign Short Courses	50	67
2. In-House Specialized Courses	7	136
3. Staff Training Centre	10	537
4. Local Training	53	133
Total	**120**	**873**

Sporting Activities

The Bank participated and excelled in several sporting activities. Both the male and ladies football teams emerged champions in the All Banks Football Gala Tournament. The Bank's Tennis Team also won the second and third prices at the Golden Tulip Tennis Tournament.

6.2 Risk-Based Audit

In line with the Audit Plan for the year, 15 risk-based audits at the Head Office and 3 at the Branches were conducted. Other key assignments undertaken included the following:

- Review of half-year statement of foreign exchange receipts and payments submitted to the Auditor-General
- Vetting of invoices and contract payments
- Review of programme data transmitted to the IMF.

6.3 Impact 05 Project

The implementation of the Impact 05 Project, launched in 2005 to achieve a fully networked, automated and integrated IT infrastructure for the Bank was continued.

The Business Analysis Phase, which entailed the documentation of processes in various departments, was carried out during the first half of the year. By end-December 2006, all servers and accessories had been installed at both the main site in Accra and the disaster recovery site in Kumasi.

Training under the Project commenced during the year. Several staff underwent training in both hardware and software both locally and abroad.

As part of measures to increase awareness and encourage active participation in the Project, an Impact 05 Week was observed from July 10 to 14 with the theme, "Pursuing Excellence". The week's activities included quiz competitions, video shows and departmental durbars.

Box 8: Highlights of Impact 05 Project

Aims of Project

- To improve the effectiveness and efficiency of methods of working within the Bank.
- To achieve a fully networked, automated and integrated I.T. infrastructure responsive to the needs of all stakeholders.
- To improve customer care and service delivery.
- To improve working standards and performance.
- To enable better and quicker decision-making processes.

Project Achievements

- A Change Management programme designed to facilitate staff implementation of the extensive changes expected under the Project was successfully implemented in all Departments of the Bank in 2005.
- A state-of-the-art Data Centre and Local Area Network for the Head Office and Regional Offices was completed at the end of 2005.
- Wide area network (WAN) infrastructure were installed at all Bank of Ghana Sites.
- Procurement and installation of all HP Servers and accessories at Accra and Kumasi Disaster Recovery Site in 2006.
- The scoping exercise, which entailed business and gap analyses of captured and documented current and future processes was completed.
- Training under the Project commenced in 2006 with several staff undergoing training in both hardware and software locally and abroad.

Next Steps

The Project is expected to go live in 2007 following the implementation of the Core Solution and User Acceptance Testing of the main software applications. Applications to be tested are the Banking Application (Temenos T24), Database System (Oracle 10G), Oracle Financials, eFass and Data Store 32.

7. EXTERNAL RELATIONS

7.1 Overview

The year began with the plenary meeting of the Strategic Partnership with Africa and the historic visit of IMF Executive Directors to the country. Towards the end of the year, the bank co-hosted meetings of the West African Monetary Zone and the West African Institute for Financial and Economic Management. Collaboration with international institutions remained a priority, with the IMF Executive Board completing the sixth and final review of the country's macroeconomic performance under the PRGF Arrangement in October 2006.

7.2 International Monetary Fund/World Bank

A group of IMF Executive Directors (EDs) led by Mr. Tom Scholar, Executive Director for the UK and including Mr. Abass Mirakhor, Executive Director for Ghana, paid a historic visit to the country from February 4 to 9, 2006. The visit was to provide the EDs the chance to learn more about Ghana and improve their understanding of the issues and challenges in the country, and also to offer Ghanaians the opportunity to proffer advice on how they thought the Fund should be run. The delegation held discussions with President J.A. Kufuor, as well as with Ministers of State, Members of Parliament, and the judiciary. They also met the press, civil society groups and the business community and observed at first hand a session of the People's Assembly in Cape Coast, during which Ghanaians from all walks of life have the opportunity to contribute to national debate.

The IMF Executive Board completed its sixth and final review of performance under the PRGF arrangement in October 2006. The Board affirmed that economic performance continued to improve, supported by a strong macroeconomic policy environment. It noted that growth was relatively strong, inflation was falling, and a considerably strengthened external sector had allowed a build-up in reserves. The Board expressed satisfaction with Ghana's programme implementation under the PRGF Arrangement.

A Mission from the Independent Evaluation Office (IEO) visited Ghana during the year to conduct an evaluation of the IMF's role in the determination of External Resource envelope in Sub Saharan-African countries, focusing on the aid dimensions of macroeconomic design and implementation. The Legal Department of the IMF also provided technical assistance on the remittance market in Ghana and money laundering legislation, while on-going technical assistance in banking supervision and monetary operations continued.

The Bank participated in the Spring and Annual meetings of the IMF/World Bank as well as the concurrent meetings of the G24. At the Annual meetings in Singapore, the IMF welcomed the strong and broad-based global economic expansion and stressed the importance of quota and voice reforms to safeguard and enhance IMF's effectiveness and credibility. It urged the Executive Board to work constructively on the two-year package of quota and voice reforms, which began with ad-hoc quota increases for China, Korea, Mexico and Turkey.

A World Bank mission also visited Ghana to hold discussions and collect background information for the preparation of the Country Economic Memorandum. In January a plenary meeting of the Strategic Partnership with Africa was held. The meeting discussed the reports of the Co-Chairs of the Working Groups on Budget Support and Sector Support and the SPA7 Programme Agenda.

In its September 2006 communiqué, the G24 supported the ad-hoc quota increases, but called for expeditious increase and protection of the voting rights of developing and low income countries. The group also expressed disappointment with the suspension of the Doha Round of Trade Negotiations and called for an urgent resumption of talks. The G24 welcomed discussion within the IMF on a new instrument that would guarantee financial support to countries with market access, which however remain vulnerable to shock.

7. EXTERNAL RELATIONS CONTINUED

7.3 West African Monetary Zone (WAMZ)

The restructuring of the West African Monetary Institute (WAMI) was completed with a new Management taking charge of the Institute in 2006. The first meetings of the committees of the West African Monetary Zone (WAMZ), following the restructuring of WAMI, were held in Accra in November 2006. The meetings reviewed progress towards monetary union in the zone. The macroeconomic convergence report showed that in the period to June 2006, inflation in the zone was falling, fiscal dominance had reduced and external sector viability had improved.

Box 9: West African Monetary Zone Meeting

Date and venue
November 21 – 24, 2006, Accra, Ghana

Decisions and Recommendations
- Domestic statistical units should be strengthened to support macro-economic surveillance activities and domestic policy making
- Member countries should sustain efforts at achieving the convergence criteria as well as on-going liberalisation of their foreign exchange markets
- Countries with multi-donor budget support frameworks should continue to strengthen such arrangements so as to ensure predictability of the budget and cushion their economies against the uncertainty of donor flows
- National Sensitization Committees should be reactivated and WAMI should continue to provide the requisite technical support and materials to enhance the sensitization efforts
- Member countries should explore the possibility of sourcing financing for the RTGS from the private sector.
- Nigeria and Ghana should show exemplary leadership by ratifying all WAMZ statutes
- Capital account liberalization should be undertaken by all countries.

7.4 West African Monetary Agency (WAMA)

The Committee of Governors of Central Banks of ECOWAS Member States and the ECOWAS Convergence Council met in December 2006 to discuss, among others, the ECOWAS Macroeconomic Convergence Report for the first half of 2006, to define the future role of WAMA, and approve its work programme and budget for 2007. The meetings affirmed the relevance of WAMA and the need for the Agency to refocus its activities and work in synergy with other sister institutions in the sub-region.

Box 10: West African Monetary Agency Meeting

Date and Venue
December 16 – 18, 2006, Ouagadougou, Burkina Faso

Major Decisions and Recommendations
Member countries should
- Ensure fiscal discipline and adopt stringent expenditure control measures to help contain high fiscal deficits
- Encourage private sector investment by accelerating liberalisation of their capital markets
- Maintain adequate external reserves to help mitigate the impact of external shock
- Adopt a common framework aimed at preventing the dumping of chemical waste and inferior goods in the West African sub-region
- Effectively harness remittances and other private inflows to help reduce the excessive dependence on donor funds
- Lift all tariff and non-tariff barriers and strengthen transport and communication infrastructure to facilitate the integration process
- WAMA should work in synergy with sister institutions and national administrations
- The agency should disengage from operational management of the multilateral clearing system and take necessary measures for orderly exit of this mechanism
- Vacant positions at WAMA should be filled
- WAMA should propose modalities for the participation of stakeholder ministries at the Technical Committee meetings
- Liberia's accumulated arrears in respect of the Agency's budget up to 2004 should be written off
- ECOWAS countries should explore the possibility of forging economic partnership agreements with the Asian and Maghreb countries along the lines being considered between ECOWAS and the European Union.

7.5 Association of African Central Banks (AACB)

The 30th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks was held in the Namibian capital, Windhoek, on August 18, 2006. It was preceded by meetings of the Bureau of the Association as well as a symposium on 'Domestic Capital Markets and Mobilization of Resources for Growth and Poverty Reduction'. The meeting was opened by His Excellency Nahas Angula, Prime Minister of the Republic of Namibia. The Governors noted with satisfaction progress made by all the sub-regions in the implementation of the African Monetary Cooperation Programme (AMCP), and agreed to send a delegation to the AU Commission to discuss cooperation between the two institutions. The Governor of the Bank of Namibia, Mr. T.K. Alweendo, was elected Chairperson of the AACB for the 2006/2007 year to succeed Dr Paul A. Acquah, Governor of the Bank of Ghana.

Box 11: Association Of African Central Banks Meeting

Date and Venue
August 14 – 18, 2006, Windhoek, Namibia

Major Decisions and Recommendations

› The 2005 progress report on the African Monetary Co-operation Programme (AMCP), should be made public for better appreciation of the significant progress made on the economic front by member countries in spite of the difficult external environment
› Member countries should submit relevant data to the Secretariat on a timely basis and should adhere to the 2001 GFS and the BoP5 manuals of the IMF in the compilation of statistical data
› The AACB Secretariat should review the recommendations of the seminar on statistical harmonization and come up with proposals on whether some of the suggested redefinitions are worth incorporating into the AMCP performance criteria
› A delegation of the AACB, led by its Chairman, should meet the Chairperson of the AU Commission to discuss areas of competence and cooperation between the AACB and the AU, in view of Article 19 of the Constitutive Act of the African Union, which envisages establishment of an African Central Bank
› The theme for the 2007 symposium would be "Micro-finance, Savings and Credit Unions in Poverty Alleviation"
› The 31st Ordinary Meeting of the Association would be hosted by the Central Bank of Libya in August 2007.

7.6 West African Institute for Financial and Economic Management (WAIFEM)

The Board of Governors of the West African Institute for Financial and Economic Management met in Accra in November 2006. The Board reviewed progress in the implementation of the 2006 Work Programme and approved the 2007 Work Programme as well as the 2007 Budget of the Institute. The Bank of Sierra-Leone assumed the chairmanship of the Board.

7.7 Visits by Credit Rating Agencies

Both Fitch Rating and Standard and Poors visited the country in December 2006 to assess economic developments in the country and review the country's credit rating.

7.8 Society for Worldwide Inter-bank Financial Telecommunications (SWIFT)

The Bank participated in the SWIFT Africa Regional Conference held in Maputo, Mozambique in May 2006. The theme for the Conference was 'Transforming for the Future: Optimising Market Infrastructure, Locally, Regionally and Globally'. Participants were exposed to the latest SWIFT products and how they could harness them for local, regional and global business. The next SWIFT Africa Regional Conference was scheduled to be held in Dakar, Senegal in May 2007.

8. ADDRESS OF THE GOVERNOR AT THE CHARTERED INSTITUTE OF BANKERS (GHANA) ANNUAL DINNER –NOVEMBER 25, 2006

Mr. Chairman,
President of the Chartered Institute of Bankers,
Fellow Members of the Institute,
Members of the Banking Fraternity,
Distinguished Guests,
Ladies and Gentlemen.

First of all, I should say that it is always a pleasure to be part of this occasion. The business of banking is a very serious one. Even though every firm in the industry tries to be customer friendly, or customer focused, the natural instinct is “all work and no play”. So this relaxed atmosphere – with a sumptuous dinner and the festivities – is good for the spirit. And it is even better, I imagine, for those bankers who expect to report robust growth in the bottom line of the balance sheet this financial year. But remember, the Minister of Finance just read the Budget for 2007. The ‘fisc’ will certainly welcome good results. I hope given your level of corporate responsibility, this fact does not in any way diminish your excitement tonight.

Seriously, Ladies and Gentlemen, I would like us all, once again, to acknowledge the laudable efforts of the President of the Institute and his team in organising this year’s events and in particular, the evening’s programme.

As usual, the Banking fraternity has chosen a very appropriate theme for the Bankers’ Week celebration; namely “The Impact of Banking and Financial Services on Ghana’s Economic Development”. This goes to the heart of the current policy debate and the growth strategy.

Over the past few years, we have seen steady growth of output, a stable and declining rate of inflation, and a strong and robust economy overall, and stability of the cedi against the backdrop of uncertainties and volatility in oil prices on the international market and their repercussions domestically. Inflation expectations continue to converge toward the single digit level that is a key objective of monetary policy, while growth has accelerated to a rather encouraging 6.2 per cent, with a build-up of a good cushion of external reserves.

This relative stability is due to strong economic fundamentals underlined by stability-oriented financial policies, based on fiscal consolidation, anchored on a sharp reduction in domestic debt in relation to GDP and anti-inflation focus of monetary policy.

Successful stabilisation of the economy and structural improvement, for example, the foreign exchange market and petroleum deregulation are fundamental to its growing resilience; and strong export growth, expanded inflows of private transfers, and debt relief have served to bolster not only resilience but the potential for growth with stability.

The banking industry has absorbed the impact of the surge in inflation and exchange rate depreciation in 2000. Banks have now rebuilt their capital adequacy ratios to prudentially safe levels. The industry is well capitalized, sound and liquid with a rapidly expanding credit book. The quality of the loan portfolio is improving with non-performing assets ratio on the decline.

Interest rates have been declining, although credit-worthy borrowers still face relatively high financial costs. Many other borrowers, presumed to be less credit-worthy, including small enterprises, borrow at the upper end of the interest spread, or are excluded entirely from access to credit.

Despite the reduced uncertainties in the prevailing macroeconomic environment, the pricing of risks remains cautious because of the past record of high default and loss in default experienced by the banking system. And there is the lack of information to assess credit worthiness of enterprises, large and small. I am sure that bankers and potential customers alike welcome the passage of the Credit Reporting Bill by Parliament this week. In addition, banks are being requested to provide full disclosure of their charges. These will fill a gap in the assessment of credit risk and foster financial deepening, and extend access to credit to worthy borrowers.

Since 2003, Universal Banking has replaced the three-pillar banking model – development, merchant and commercial banking. It has levelled the playing field, and opened up the system to competition, product innovation and entry. With improved macroeconomic conditions and prospects, the industry has grown into 22 banks, diversified in geographical origin, corporate character and reach in the global financial markets. The licensing policy of the Bank of Ghana will continue to pursue the underlying objectives of establishing a unique and rich banking tradition. At this stage the entry of foreign banks would be limited to truly internationally active financial institutions.

Mr. Chairman, while the banking system remains the pillar for financial intermediation, there is the need to develop the domestic capital market as part of the financial sector strategy. It is to offer an alternative but complementary source of funding to bank-debt financing and access to international capital flows for corporates as well as the public sector. A market would encourage domestic savings through a broad set of financial instruments and investment products, and serve as a vehicle for attracting foreign capital, and also reduce exposure to the risks of currency and maturity mismatches associated with borrowing on external capital markets.

Mr. Chairman, Capital Markets play an essential role in improving corporate governance, disclosure and accounting standards, and transparency in the market place. As such they contribute to more stable investment financing, high economic growth and foster lower macroeconomic volatility and greater financial stability.

Ladies and Gentlemen, to deepen the domestic capital market, we need to build a core group of participants. The corporate sector has to be strengthened. Important in this regard are: the public sector institutions with large balance sheets; and monopoly over key sectors; that now depend on transfers of government borrowing for investment. The pension and mutual funds, insurance companies and social security constitute a significant pool of captive resources that could be channelled into the capital markets. This must be tapped to offer enterprises with longer-term capital in an efficient financial market.

We have put in place over the last few years, a reasonable modern payments and settlements system to promote the development of an efficient capital market. The Bank of Ghana has introduced the Real Time Gross Settlement System (RTGS) which ensures safe, sound, and secure high value interbank settlements. The Central Securities Depository (CSD) system will soon be extended to cover equities and securities listed on the Ghana Stock Exchange.

We are now building a vital component of the electronic payments infrastructure with far reaching implications for delivery of financial services. This comes as a common platform, which includes a domestic switch with a fully integrated payment, switching and settlement system for all banks, both rural and urban. It comes with a SMARTCARD, based on biometric identification and compatible with the domestic switch, that can be used for diverse payment transactions such as payments for goods and services, transfer of funds, and it can be linked to cardholder bank accounts for use as ATM cards, debit and credit cards. This state-of-the-art payments infrastructure development is to make the financial system efficient, robust and competitive in order to position it to support growth toward the emerging market economic status.

Let me note that the health of the economy is intertwined with the health and soundness of its financial system, making the stability of the financial system a matter of fundamental public interest. Financial services and for that matter banking is a public good produced by private market participants motivated by profit but the benefits derived from success or the cost of failure on the part of these institutions are incalculable for the economy. It is not difficult to see why there is a close relation between efficient financial systems and economic growth, and why macroeconomic and financial stability is of fundamental importance, especially for our economy as we have just emerged from a situation of price and currency instability, with some of its consequences still lingering on.

8. ADDRESS OF THE GOVERNOR AT THE CHARTERED INSTITUTE OF BANKERS (GHANA) ANNUAL DINNER –NOVEMBER 25, 2006 CONTINUED

The legacy of the previous episodes of high inflation has been the rapid increases in the numerical values of prices (moving into millions, billions and trillions depending on the context) as well as foreign currency exchange in local currency terms. This has imposed the burden and cost of a high note regime on the economy.

Finally, Mr. Chairman, let me take this opportunity to make an important policy announcement. The current note regime places significant deadweight burden on the economy. This comes in several forms such as the high transactions costs at the cashiers, general inconvenience and high risks involved in carrying loads of currency for transaction purposes, increasing difficulties in maintaining bookkeeping and statistical records and ensuring compatibility with data processing software, and the strain on the payments system, particularly the ATMs.

Experience in other emerging market economies in similar situations suggests that re-denomination of the currency leads to significant efficiency gains, when undertaken in the context of strong economic fundamentals and macroeconomic stability, which is the situation characterising the economy today.

Over the past five years, macroeconomic stability has taken root; inflation is falling; interest rates falling; the currency is stable; the cedi's role as a store of value has been restored, creating the appropriate conditions for the re-denomination of the cedi.

The Bank of Ghana is now planning to take all the necessary steps to re-denominate the current cedi by setting ten thousand cedis to one new Ghana Cedi, equivalent to one hundred Ghana Pesewas. That is ¢10,000=GH¢1=100Gp. The re-denomination exercise would require the cooperation of all public and private institutions and the general public. New notes and coins will be issued to replace the existing notes and coins over time. However, the existing and newly introduced notes and coins will circulate together initially. Introduction of the new notes and coins is planned to take place by July 2007. The public will be kept fully informed about this exercise.

Mr. Chairman, Ladies and Gentlemen, on this note, let me once again thank the organizers for giving me the opportunity to once again interact with the banking fraternity and more importantly for this excellent cuisine we have all enjoyed here tonight.

Thank you for your attention.

9. FINANCIAL STATEMENTS

Corporate Information
Board of Directors, Officials and Registered Office

Board of Directors	Dr. Paul A. Acquah (Chairman/Governor) Mr. Lionel Van Lare Dosoo (1st Deputy Governor) Dr. Mahamudu Bawumia (2nd Deputy Governor. app 1/6/06) Mr. Nik Amarteifio Prof. F. T. Sai Mrs. Gloria Nikoi Mr. Sam Okudzeto Rev. Dr. Kwabena Darko Prof. K. Asenso-Okyere Togbe Afede XIV Prof. George Gyan-Baffour (appointed 30/08/06) Lt Gen. Joshua Hamidu (appointed 01/09/06) Mr. Ishmael Yamson (resigned 28/06/06) Mr. Emmanuel Asiedu-Mante (retired 31/05/06) Hon. Kwaku Agyeman-Manu (resigned 31/05/06)
Secretary	Mr. James A. Odei Bank of Ghana Head Office, One Thorpe Road P. O. Box GP 2674 Accra, Ghana
Auditors	KPMG Chartered Accountants 25 Liberia Road P.O. Box GP 242 Accra, Ghana
Solicitors	Agyemang & Associates P. O. Box GP 2959 Accra, Ghana Kuenyehia & Co P. O. Box AN 6564 Accra, Ghana
Registered Office	Bank of Ghana Head Office, One Thorpe Road P. O. Box GP 2674 Accra, Ghana

REPORT OF THE DIRECTORS TO THE MEMBERS OF BANK OF GHANA

The Directors have pleasure in presenting the audited financial statements of the Bank for the year ended 31st December 2006.

Responsibilities of the Board of Directors for the Preparation of the Financial Statements

The Directors are responsible for preparing financial statements for each accounting year, which give a true and fair view of the state of affairs of the Bank as at the end of the accounting year, and of the surplus or deficit of the Bank for the period.

In preparing the financial statements, the Directors are required to:

› select suitable accounting policies and then apply them consistently;
› make judgements and estimates that are reasonable and prudent;
› state whether applicable accounting standards have been followed, subject to any material departures, disclosed and explained in the financial statements;
› prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business;

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Bank and enable the Bank to ensure that the financial statements comply with relevant legislations and accounting standards. They are also responsible for safeguarding the assets of the Bank and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

Compliance with Relevant Legislation and Accounting Framework

The financial statements, including comparative year information, are prepared both in accordance with the Bank of Ghana Act, 2002 (Act 612), Financial Administration Act, 2005 (Act 654) and International Financial Reporting Standards (IFRS) except where the application of the Act leads to non compliance with IFRS. The Directors have reviewed the accounting policies and disclosures in the financial statements and have indicated areas where the provisions of the Bank of Ghana Act 2002 (Act 612) are not entirely consistent with requirements of IFRS.

Departure from IFRS

The application of the Act has led to a departure from the requirements of the IFRS as follows:

Treatment of net foreign exchange difference

Net foreign exchange differences on holdings of gold, Special Drawing Rights or foreign securities have been treated in accordance with note 5(d) and presented under notes 17 and 18.

Details of this departure are presented under note 35.
The Board has reviewed this treatment and has concluded that the departure from the requirements of IFRS is necessary to achieve a fair presentation of the bank's financial position, financial performance and cash flows taken within the context of the provisions of the Bank of Ghana Act, 2002 (Act 612).

Mission Statement

The mission of the Bank is to pursue sound monetary and financial policies aimed at price stability and create an enabling environment for sustainable economic growth.

The primary objective of the Bank is to maintain stability in the general level of prices and, without prejudice to this primary objective, promote economic growth and an effective and efficient banking and credit system. The Bank is engaged in the business of central banking. There was no change in the nature of the business of the Bank during the 2006 financial year.

Financial Statements

The results for the year are summarised below:

	¢'m
Net Surplus for the year	557,572

Subsidiary Company

The Bank owns 51% of the issued shares of Ghana International Bank Plc, a company incorporated in the United Kingdom, which carries on the business of commercial banking.

Chairman (Governor)
ACCRA

Director

29 March 2007

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BANK OF GHANA

We have audited the consolidated and separate financial statements of Bank of Ghana, which comprise the balance sheet at 31 December, 2006, the Income Statement and Statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, as set out on pages 46 to 74.

Directors' Responsibilities for the Financial Statement

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Bank of Ghana Act, 2002 (Act 612) and Financial Administration Act, 2005 (Act 654). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion in accordance with IRFS and the unqualified audit opinion in accordance with Bank of Ghana Act, 2002 (Act 612).

Basis for Qualified Opinion in accordance with IFRS

International Financial Reporting Standard IAS 21. the Effects of Changes in Foreign Exchange Rates requires that exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period shall be recognised in profit or loss in the period in which they arise. Net unrealised foreign exchange loss of ¢53,315 million (2005: gain of ¢606,804 million) on holdings of gold, Special Drawign Rights and foreign securities with the International Monetary Fund were charged directly to Revaluation Account included in other assets under note 18 in accordance with Section 7 of the Bank of Ghana Act, 2002 (Act, 612).

Qualified Opinion in accordance with IFRS

In our opinion, except for the effects on the financial statements of the matters described to in the Basis for Qualified Opinion in accordance with IFRS paragraph, the financial statements give a true and fair view of the consolidated and separate financial position of Bank of Ghana at 31 December 2006, and its consolidated and separate financial performance and the consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

Unqualified Opinion in accordance with the Bank of Ghana Act

In our opinion, the financial statements give a true and fair view of the consolidated and separate financial position of the Bank of Ghana at 31 December 2006, and its consolidated and separate performance and the consolidated and separate cash flows for the year then ended in accordance with the Bank of Ghana Act, 2002 (Act 612).

Chartered Accountants
25 Liberia Road
P O Box 242
ACCRA

29 March 2007

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2006

		The Bank		The Group	
	Note	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Assets					
Cash and Amounts due from Banks	14	2,003,943	3,465,860	751,611	3,019,261
Gold	15	1,642,547	1,316,463	1,642,547	1,316,463
Balances with IMF	16	5,145,100	4,830,532	5,145,100	4,830,532
Securities	18	24,025,156	18,751,485	25,081,605	19,676,894
Loans and Advances	17	6,096,861	6,921,067	10,465,688	9,065,950
Other Assets	19	1,690,244	2,033,877	1,710,849	2,122,140
Property, Plant and Equipment	20	844,431	826,906	860,544	830,123
Development Loans and Investments	21	50,840	51,863	1,625	2,648
Deferred Tax	13(ii)	–	–	957	1,520
Total Assets		**41,499,122**	**38,198,053**	**45,660,526**	**40,865,531**
Liabilities					
Currency in Circulation	22	10,907,514	8,520,521	10,907,514	8,520,521
Allocations of Special Drawing Rights		874,015	820,606	874,015	820,606
Deposits	23	12,992,537	11,356,189	16,344,589	13,446,450
Liabilities to IMF	24	6,545,668	8,612,413	6,545,668	8,612,413
Taxation	13(i)	–	–	15,459	10,504
Liabilities under Money Market Instruments	25	5,536,476	6,976,589	5,536,476	6,976,589
Other Liabilities	26	2,422,333	785,908	2,625,510	893,999
Total Liabilities		**39,278,543**	**37,072,226**	**42,849,231**	**39,281,082**
Shareholders' Funds					
Stated Capital	27	100,000	100,000	100,000	100,000
Asset Revaluation Reserve	28	589,304	589,304	589,304	589,304
General Reserve	29	83,501	76,673	83,501	76,673
Other Reserve	30	1,633,846	552,750	1,821,173	696,949
Retained Earnings		(186,072)	(192,900)	(96,161)	(128,078)
		2,220,579	1,125,827	2,497,817	1,334,848
Total Liabilities/Minority Interest and Shareholders' Funds		**41,499,122**	**38,198,053**	**45,660,526**	**40,865,531**

Chairman (Governor)

Director

The financial statements were approved by the Board of Directors on 29 March 2007.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2006

		The Bank		The Group	
	Note	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Interest and similar income	6(i)	1,573,321	1,432,954	1,775,291	1,575,094
Fee and commission income		117,124	95,099	169,454	138,228
Dividend income		11,675	6,296	–	–
Other operating income	6(iii)	623,177	278,358	647,400	294,147
Operating Income		2,325,297	1,812,707	2,592,145	2,007,469
Interest expense and similar charges	6(ii)	(769,915)	(1,066,822)	(863,353)	(1,131,652)
Net impairment loss	10	(20,194)	108	(20,194)	108
Operating expenses		(777,616)	(727,742)	(858,657)	(798,211)
Administration	7	408,947	342,375	469,873	392,620
Premises and Equipment	8	126,999	115,130	147,114	135,354
Currency and Issue	9	241,670	3,919	241,670	3,919
Other operating expenses	6(iv)	–	266,318	–	266,318
Surplus/(Deficit) before Provisions and Exceptional Item		757,572	(18,251)	849,941	(77,714)
Provisions	11	(200,000)	(10,000)	(200,000)	(10,000)
Surplus/(Deficit) before taxation		557,572	8,251	649,941	67,714
Taxation	13(iii)	–	–	(31,959)	(20,104)
Surplus/(Deficit) after Taxation		557,572	8,251	617,982	47,610
Surplus attributed to:					
Equity shareholders of the Parent		–	–	582,661	25,238
Minority Shareholders		–	–	35,321	22,372
Surplus/(Deficit) Taxation		557,572	8,251	617,982	47,610

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2006

	Stated Capital ¢'m	Retained Earnings ¢'m	Asset Revaluation Reserve ¢'m	General Reserve ¢'m	Other Reserve ¢'m	Total ¢'m
Balance at 1st January 2005	100,000	(197,026)	35,962	72,548	598,147	609,631
Net Surplus for the year		8,251				8,251
Transfer to General Reserve		(4,125)		4,125		–
Revaluation Surplus			553,342			553,342
Changes in the price of gold					(45,397)	(45,397)
Balance at 31st December 2005	**100,000**	**(192,900)**	**589,304**	**76,673**	**552,750**	**1,125,827**
Balance at 1st January 2006	100,000	(192,900)	589,304	76,673	552,750	1,125,827
Net Surplus for the year		557,572				557,572
Transfer to General Reserve		(6,828)		6,828		–
Reclassification from other liabilities					227,428	227,428
Price/exchange movements in gold & other foreign assets			–		323,668	323,668
Revaluation Loss Account		(13,916)				(13,916)
Transfer to Other Reserve		(530,000)			530,000	–
Balance at 31st December 2006	**100,000**	**(186,072)**	**589,304**	**83,501**	**1,633,846**	**2,220,579**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2006

	Stated Capital ¢'m	Income Surplus ¢'m	Asset Revaluation Reserve ¢'m	General Reserve ¢'m	Other Reserve ¢'m	Translation Reserve ¢'m	Total ¢'m
Balance at 1st January 2005	100,000	(155,486)	35,962	72,548	598,147	182,007	833,178
Net surplus for the year		25,238					25,238
Transfer to General Reserve		(4,125)		4,125			–
Revaluation Surplus			553,342				553,342
Restatement of Group reserves		6,295					6,295
Price & Exchange Difference					(45,397)		(45,397)
Foreign currency translation reserve						(37,808)	(37,808)
Balance at 31st December 2005	**100,000**	**(128,078)**	**589,304**	**76,673**	**552,750**	**144,199**	**1,334,848**
Balance at 1st January 2006	100,000	(128,078)	589,304	76,673	552,750	144,199	1,334,848
Net Surplus for the year		582,661					582,661
Transfer to General Reserve		(6,828)		6,828			–
Reclassification from other Liabilities					227,428		227,428
Price & Exchange Difference					323,668		323,668
Transfer to Revaluation loss		(13,916)					(13,916)
Transfer to Other Reserve		(530,000)			530,000		–
Foreign currency translation reserve						43,128	43,128
Balance at 31st December 2006	**100,000**	**(96,161)**	**589,304**	**83,501**	**1,633,846**	**187,327**	**2,497,817**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2006

	2006		2005	
	¢'m	¢'m	¢'m	¢'m
Net Cash Outflow from Operating Activities (Note 34a)		46,021		(251,540)
Investing Activities				
Decrease Development Loans and Investments	1,023		1,674	
Property, Plant & Equipment Purchased	(127,946)		(92,373)	
Proceeds from Sale of Property, Plant & Equipment	10		–	
(Increase)/Decrease in Balances with IMF	(314,568)		527,115	
Net Cash Outflow from Investing Activities		(441,481)		436,416
Net Cash Outflow before Financing		(395,460)		184,876
Financing				
(Decrease)/Increase in Bank of Ghana Instruments	(1,440,112)		794,215	
Increase in Currency in Circulation	2,386,994		846,622	
Increase/(Decrease) in Allocation of SDRs	53,410		(59,707)	
Increase/(Decrease) in Short Term Credits	1,391,008		(2,911)	
(Decrease) in Enhanced Structural Adjustment Facility	(3,457,754)		(758,395)	
Net Cash Inflow from Financing Activities		(1,066,454)		819,824
(Decrease)/Increase in Cash and Cash Equivalents		(1,461,916)		1,004,700
Analysis of Changes in Cash and Cash Equivalents during the Year				
Balance at 1st January		3,465,859		2,461,160
Net Cash (Outflow)/Inflow		(1,461,916)		1,004,700
Balance at 31st December		2,003,943		3,465,860

Analysis of changes in cash and cash equivalents are shown under note 13.

Interest received	1,372,619	1,191,535
Interest paid	769,915	1,062,498

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2006

	2006		2005	
	¢'m	¢'m	¢'m	¢'m
Net Cash Outflow from Operating Activities (Note 34b)		(705,768)		(207,668)
Investing Activities				
Development Loans and Investments	1,023		1,674	
Property, Plant & Equipment Purchased	(144,382)		(93,684)	
Proceeds from Sale of Property, Plant & Equipment	119		–	
(increase)/decrease in Balances with IMF	(314,569)		527,115	
Net Cash Outflow from Investing Activities		(457,809)		435,105
Net Cash (Outflow)/Inflow before Financing		(1,163,577)		227,437
Tax Paid		(26,264)		(21,691)
Financing				
Dividend Paid to Minority Interest	(11,354)		(6,093)	
(Decrease)/Increase in Bank of Ghana Instruments	(1,440,112)		794,215	
Increase in Currency in Circulation	2,386,992		846,622	
Increase/(Decrease) in Allocation of SDRs	53,410		(59,707)	
Increase/(Decrease) in Short Term Credits	1,391,008		(2,911)	
Decrease in Enhanced Structural Adjustment Facility	(3,457,753)		(758,395)	
Net Cash Inflow from Financing Activities		(1,077,809)		813,731
(Decrease)/Increase in Cash and Cash Equivalents		(2,267,650)		1,019,477
Analysis of Changes in Cash and Cash Equivalents during the Year				
Balance at 1st January		3,019,261		1,999,784
Net Cash (Outflow)/Inflow		(2,267,650)		1,019,477
Balance at 31st December		751,611		3,019,261

Analysis of changes in cash and cash equivalents are shown under note 13.

	2006 ¢'m	2005 ¢'m
Interest received	1,574,588	1,301,225
Interest paid	810,962	1,027,993

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006

1. Statute and principal activities

Bank of Ghana (the Bank) is wholly owned by the Government of Ghana, and operates as Ghana's central bank. Its operations are governed by the Bank of Ghana Act, 2002 (Act 612).

The principal objectives and functions of the Bank are:

› to maintain stability in the general level of prices;
› without prejudice to the above, to support the general economic policy of the Government and promote economic growth and effective and efficient operation of the banking and credit systems in the country, independent of instructions from the Government or any other authority.

In order to meet the above objectives the Bank shall, in summary:

› formulate and implement monetary policy;
› promote stabilisation of the currency by monetary measures, and institute measures favourable to the balance of payments; state of public finance and general national economic development;
› undertake prudential supervision of the banking sector and ensure smooth operation of the financial sector;
› promote, regulate and supervise the payments system;
› issue and redeem currency notes and coins;
› ensure effective maintenance and management of Ghana's external financial relations;
› license, regulate, promote and supervise non bank financial intermediaries;
› act as banker and financial advisor to the Government;
› promote and maintain relations with international banking and financial institutions and perform all other functions incidental or conducive to the functions under the Bank of Ghana Act or any other enactment.

The consolidated financial statements of the Bank for the year ended 31 December 2006 comprise the Bank and its subsidiary, together referred to as "The group".

2. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Bank of Ghana Act 2002 (Act 612) the Financial Administration Act, 2005 (Act 654) and International Financial Reporting Standards (IFRS) except where the application of the Act leads to non-compliance with IFRS. Material departures in the financial statements from the provisions of IFRS as a result of compliance with the provisions of the Act have been disclosed under note 35.

3. Basis of measurement

The consolidated financial statements are presented in Ghana cedis the functional currency, rounded to the nearest million. The consolidated financial statements are prepared on fair value basis for financial assets and liabilities held for trading and available-for-sale assets, except for those for which a reliable measure of fair value is not available.

Other financial assets and liabilities and non-financial assets and liabilities are stated at either amortised cost including property, plant and equipment, historical cost including currency in circulation and other cedi denominated assets and liabilities or revalued amounts including foreign currency denominated assets and liabilities and impaired assets. The Bank's accounting policies have been applied consistently with those used in the previous year.

4. Basis of consolidation

Subsidiaries are those enterprises controlled by the bank. Control exists when the bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions are eliminated on consolidation.

5. Summary of significant accounting policies

The following accounting policies have been approved by the Board and have been applied consistently in dealing with items that are considered material in relation to the Bank's financial statements.

a. Income recognition

(i) Fees that are an integral part of effective interest rate of financial instruments

Interest and similar income and interest expense and similar charges are recognised in the income statement only when it is probable that the economic benefits or obligations associated with the transaction will flow to or from the Bank, taking into account the effective yield of assets and liabilities. It includes amortisation of any premium or discount on purchase or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(ii) Fees on Services Provided
Fees and commission income earned from financial services provided by the Bank are recognised when the corresponding service is provided. Fees and commission charges are recognised when the bank has received the corresponding service.

Dividend income is recognised in the income statement when the right to receive income is established. Dividends are reflected as a component of net operating income.

b. Financial Instruments

(i) Classification
For purposes of measuring the Bank's financial instruments subsequent to initial recognition, the bank classifies financial instruments into four categories:

Trading instruments are those that the group principally holds for the purpose of short-term profit taking. The bank does not hold trading instruments.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking.

Held-to-maturity assets and liabilities are fixed or determinable payments and fixed maturity financial instruments that the Bank has the intent and ability to hold to maturity. This includes local and foreign money market instruments and short-term investments.

Available-for-sale assets are financial assets that are not held for trading purposes, do not originate from the Bank, or are not held to maturity.

The following assets and liabilities are excluded from classification as financial instruments: property, plant and equipment, income and deferred tax balances.

(ii) Initial Recognition
The Bank recognises financial assets and liabilities held on settlement date. From the date it commits to purchase the assets, any gains and losses arising from changes in fair value of the assets are recognised.

(iii) Measurement
Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition, all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Fair values are based on relevant quoted market price.

Non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Amortised cost of short-term held-to-maturity assets and liabilities are approximated to their cost.

Redeemable non-interest bearing and fixed maturity long term government securities are stated at cost for the purpose fairly presenting the substance of these securities.

(iv) Gains and Losses on Subsequent Measurement
Gains and losses arising from a change in the fair value of available-for-sale financial instruments are recognised directly into equity. When the financial assets are sold, collected or otherwise disposed of cumulative gain or loss recognised in equity is transferred to the income statement.

Gains and losses arising from the change in the fair value of trading instruments are recognised in the income statement in the period in which it arises.

Gains and losses on amortisation of premiums or discounts of financial instruments carried at amortised cost are recognised in the income statement of the period in which they arise.

(v) Derecognition
A financial asset is derecognised on the value date if the Bank loses control over the contractual rights that comprise the asset. This occurs when the rights are realised, expired or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised, and corresponding receivables from the buyer for the payment are recognised as of the date the bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2006
CONTINUED

(vi) Impairment

General Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Originated loans and advances Specific and portfolio impairments are made for originated loans and advances for uncollectibility. Specific impairments are made against the carrying amounts of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce them to their recoverable amounts. Portfolio impairments are maintained to reduce the carrying amounts of portfolio of similar loans and advances to their estimated recoverable amounts at the balance sheet date.

In determining the level of provisions required, consideration is given to a number of factors including, but not limited to, domestic economic conditions, the composition of the advances portfolio and prior debt experience.

Changes in provisions are recognised in the income statement. Advances are written off when the extent of any loss has been determined.

Financial assets remeasured to fair value directly through equity Where a financial asset, which is held as available-for-sale is impaired, and an increase in the fair value of the financial asset was previously recognised in equity, the increase in the fair value of the financial asset recognised in equity is reversed to the income statement to the extent that the asset is impaired beyond its original cost.

Any additional impairment loss is recognised in the income statement. If in a subsequent period the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event after the write-down, the write-down is reversed through the income statement.

(vii) Impairment of Non-financial Assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Am impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

c. Gold

Gold is held by the Bank as part of its foreign reserves and is classified as available for sale for the purposes of measurement. Gold holdings are included in the balance sheet at the prevailing closing spot market price on the London Bullion Market on that date.

Changes in the fair value of gold holdings arising from price changes are recognised directly in equity as part of other reserves.

Foreign exchange gains and losses on gold holdings are for the account of the Government of Ghana and consequently such gains and losses are transferred to Revaluation Account in accordance with section 7 of the Bank of Ghana Act, 2002 (Act 612).

d. Foreign Currencies

Foreign currency transactions

Transactions denominated in foreign currencies are translated into cedis at the rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into cedis at exchange rates ruling at the balance sheet date.

Gains and losses resulting from such transactions are recognised in the income statement except for the following:

Exchange gains and losses arising from translation of holdings in gold, Special Drawing Rights (SDRs) held with International Monetary Fund (IMF) or holdings of foreign securities are recognised directly into Revaluation Account in accordance with section 7 of the Bank of Ghana Act, 2002 (Act 612).

Financial Statements of Foreign Operations
The Bank considers its subsidiary as foreign entity. Consequently, the subsidiary's foreign operations are not considered an integral part of those of the Bank. Accordingly, the assets and liabilities of the foreign operation including any goodwill and fair value adjustments arising on consolidation are translated into cedis at the foreign exchange rates ruling at the balance sheet date. The revenues and expenses of the subsidiary are translated to cedis at the average rate for the year. Foreign exchange differences arising on these translations are recognised directly into equity.

The following were the average and the closing rates for the year ended 31st December 2006.

Currency	Average Rate ¢	Closing Rate ¢
US Dollar	9,158	9,224
GBP	16,829	18,064
EURO	11,490	12,148
SDR	13,432	13,877

e. Special Drawing Rights/International Monetary Fund Related Transactions
The Bank on behalf of Government of Ghana manages assets and liabilities in respect of Special Drawing Rights with the International Monetary Fund (IMF). Exchange gains and losses arising from translation of SDRs at period ends are treated in accordance with note 5(d) above.

f. Loans and Advances
Loans and advances originated by the Bank are classified as originated loans and receivables. Loans and advances are stated in the balance sheet at the estimated recoverable amounts in accordance with note b(vii).

The recoverable amounts of loans and advances are the present value of expected future cash flows, discounted at the instruments' original effective interest rate. Short-term balances are not discounted.

g. Securities
Domestic Securities
Domestic securities consist of Government of Ghana redeemable, negotiable and interest bearing securities. These securities are classified as held to maturity and are stated in the balance sheet at amortised cost.

Foreign Securities
This represents interest bearing short term instruments with fixed maturities held with correspondent banks. These securities are stated at amortised cost.

Long Term Government Securities
This represents interest bearing and non-interest bearing fixed maturity securities issued by the Government of Ghana to cover the Bank in respect of net exchange losses arising on holdings of gold, SDRs or foreign securities recognised in the Revaluation Account in accordance with section 7 of the Bank of Ghana Act, 2002. The non-interest bearing components of these securities are stated at cost to fairly present the substance of these securities.

h. Equity Shares and Participation Interests
Equity investments are classified as available-for-sale financial assets and measured at fair after initial recognition. Where the fair value of these investments cannot be reliably measurable, they are stated at cost less provision for impairments.

i. Property, Plant and Equipment
Property, plant and equipment are stated in the balance sheet at original purchase price as modified by any revaluation, less accumulated depreciation. Depreciation is calculated using the straight-line method so as to write off the gross value of the property, plant and equipment as over their estimated useful lives.

Subsequent expenditures incurred to replace a component of property, plant and equipment that are accounted for separately, are capitalised. Other subsequent expenditure is capitalised only if it increases the future economic benefits embodied in the item of property, plant and equipment.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006 CONTINUED

The annual depreciation rates generally in use are as follows:

	%
Buildings	4
Plant and Equipment	10 – $33^1/_3$
Motor Vehicles	$33^1/_3$
Furniture and Fittings	20

Capital work-in-progress is recorded at cost. Land is not depreciated.

Revaluation
When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset after revaluation equals its revalued amount. Where assets carrying amount is increased as a result of revaluation, the increase is credited to equity under the heading of Asset Revaluation Reserve. However, the increase is recognised in profit and loss account to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit and loss account.

Conversely, where the carrying amount is decreased as a result of revaluation, the decrease shall be recognised in the profit and loss account. However, the decrease shall be debited directly to equity under the heading Asset Revaluation Reserve to the extent of any credit balance existing in the Asset revaluation Reserve in respect of that asset.

j Grants
Grants are recognised in the balance sheet as deferred income when there is reasonable assurance that it will be received and that the Bank will comply with the conditions attaching to it. Grants that compensate the Bank for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are recognised in the income statement as revenue on a systematic basis over the useful life of the asset.

k. Deposits
Interest bearing deposits are stated at amortised cost. Non-interest bearing deposits are stated at cost.

l. Pension Costs
The Bank operates a defined benefit scheme which provides benefits based on final pensionable pay. The Bank's obligation for contribution to the scheme is recognised as an expense in the income statement.

The Group's net obligation is calculated for the plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and their fair value of any plan assets are deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reduction in future contributions to the plan.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit and loss account on a straight-line basis over the average period until the benefits become vested.

m. Capital and Reserves
Stated capital represents non-distributable capital of the Bank.

With respect to the distribution of surplus for the year, the Bank of Ghana Act provides that after allowing for specified provisions, surplus for the year are distributed as follows

- transfer of one half of the net profit to the General Reserve, if the balance in the Reserve is less than the paid up capital of the Bank; or
- transfer of one quarter of net profit to the General Reserve, if the balance in the Reserve is less than twice the amount of paid up capital;
- any residual to be utilised to settle Government of Ghana indebtedness and/or where none exists, to be paid into the Consolidated Fund.

Except that where there is a net loss on the Revaluation Account, the net surplus for the year shall be credited to it.

n. Taxation
Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity.

The Bank is not subject to tax in respect of its functions under the Bank of Ghana Act. Tax on the profit of the Bank's subsidiary, Ghana International Bank Plc for the period comprises current tax charge and the change in deferred tax. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recover from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

o. Deferred Taxation
Full provision is made for deferred tax liabilities using the liability method on temporary differences. Deferred liabilities are provided using the balance sheet method and at the rate of tax that are expected to be applied to the temporary differences when they arise. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

p. Operating Leases
Operating lease rentals are charged to profit and loss account on a straight line basis over the term of the lease.

q. Comparative Information
Comparative information, where necessary, has been restated to achieve consistency in disclosure with current financial year information.

r. Post-Balance Sheet Events
Events subsequent to the balance sheet date are reflected only to the extent that they relate to the financial statements and their effect is material.

s. Use of estimates and judgement
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

t. Cash and cash equivalents
Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the financial statements.

u. Provisions
A provision is recognised if, as a result of past obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for restructuring is recognised when the Group has approved a detailed and formed restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the net present value of the lower of the expected cost to terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

v. Dividend
Dividends are recognised as a liability in the period in which they are declared.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2006
CONTINUED

6(i). Interest and similar income

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Interest Income	1,372,619	1,227,393	1,564,644	1,369,533
Discount on treasury bill operations	200,702	205,561	210,647	205,561
	1,573,321	1,432,954	1,775,291	1,575,094

6(ii). Interest expense and similar charges

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
IMF & SDR allocations	39,399	37,632	39,399	37,632
Foreign loans and credits	20,817	12,217	20,817	12,217
Forex deposits	–	41	–	41
Deposits by customers	–	–	52,391	28,145
Deposits by Banks	–	–	41,047	36,685
Interest on money market instruments	709,699	1,016,932	709,699	1,016,932
	769,915	1,066,822	863,353	1,131,652

6(iii). Other operating income

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Exchange gain	598,272	–	598,272	–
Other Miscellaneous	24,905	278,358	49,128	294,147
	623,177	278,358	647,400	294,147

Other miscellaneous income includes reversal of provisions made in respect of doubtful items outstanding on Nostro account in prior years and unrealised exchange gains on doubtful assets that have been recovered (2005: ¢249,806 million; 2006:Nil).

6(iv). Other operating expenses

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Exchange Loss	–	266,318	–	266,318

7. Administrative expenses

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Personnel cost	308,502	257,588	349,014	292,304
Foreign and domestic travel	11,982	9,285	12,609	9,918
Motor vehicle maintenance/running	13,337	14,471	13,560	14,628
Communication expenses	17,666	14,773	20,983	17,683
Banking Colleges and Monetary Institutes	2,718	4,612	2,718	4,612
Computer related expenses	7,364	4,402	12,424	7,753
Banking supervision expenses	3,885	1,400	3,885	1,400
Auditors' Remuneration	990	900	2,019	1,918
Directors' Remuneration	3,062	1,864	8,963	5,205
Foreign currency importation	1,860	1,408	1,860	1,408
Depreciation – motor vehicles	8,239	9,107	8,405	9,332
Others	29,342	22,565	33,433	26,459
	408,947	342,375	469,873	392,620

The average number of persons employed by the Bank during the period was:

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Directors	12	12	19	19
Staff	1,518	1,573	1,552	1,607
	1,530	1,585	1,571	1,626

8. Premises and equipment expenses

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Rent and rates	5,435	2,155	13,609	10,988
Electricity, water and conservancy	7,085	8,475	7,261	8,596
Repairs and renewals	9,378	4,398	17,284	11,860
Insurance – premises and equipment	717	618	2,554	2,814
Depreciation – premises & equipment	96,930	93,972	97,557	94,577
Generator running expenses	1,915	837	3,153	1,843
Disinfestation	285	217	285	217
Other premises and equipment expenses	5,254	4,458	5,411	4,459
	126,999	115,130	147,114	135,354

9. Currency and issue expenses

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Agency fees	1,526	2,172	1,526	2,172
Notes printing	237,149	977	237,149	977
Other currency expenses	2,995	770	2,995	770
	241,670	3,919	241,670	3,919

10. Impairment losses

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Charge (Reversal) of impairments of other assets	20,194	(108)	20,194	(108)
		(108)		(108)
Net Impairment credits/Losses	20,194	(108)	20,194	(108)

This is in respect of provisions made on loans and advances, investments and other assets whose recoverability have become doubtful.

11. Provisions

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Pension Fund	200,000	–	200,000	–
Other Provisions		10,000	–	10,000
	200,000	10,000	200,000	10,000

12. Taxation

(i) Income Tax Payable

(a) The Bank

The Bank is exempt from payment of income taxes. Consequently, no provisions have been made in respect of income and deferred taxes.

(b) The Group

	Balance at 1/1/06 ¢'m	Payments during year ¢'m	Charge to income statement ¢'m	Balance at 31/12/06 ¢'m
Up to 2005	10,504	–	–	10,504
2006	–	(26,264)	31,219	4,955
	10,504	(26,263)	31,219	15,459

A UK corporation tax rate of 30% is applied on profit on ordinary activities of the bank's subsidiary registered in the UK. An effective tax rate of 30.7% was applied on profit on ordinary activities.

(ii) Deferred Tax

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Balance at 1st January	–	–	1,520	3,294
Translation Adjustment	–	–	177	(232)
Charge for the year [13(iii)]	–	–	(740)	(1,542)
Balance at 31st December	–	–	957	1,520

The balance on deferred tax comprises:

Accelerated capital allowances	–	–	957	1,520
Other timing differences	–	–	–	–
Total	–	–	957	1,520

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006 CONTINUED

Deferred tax is recognised for all taxable temporary differences. Deferred tax assets and liabilities are measured at the amounts expected to be paid to (recover from) the taxation authorities, using the tax rates that have been enacted by the balance sheet date.

(iii) Income Tax Expense

The tax expense in the consolidated income statement comprises:

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Corporate income tax expense [note 13(i)]	–	–	31,219	18,562
Deferred tax charge for the period [note 13(ii)]	–	–	740	1,542
	–	–	31,959	20,104

13. Cash and amounts due from banks

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Correspondent Bank Balances	1,814,224	3,224,878	561,892	2,778,280
Notes and Coins Holdings	189,719	240,982	189,719	240,981
	2,003,943	3,465,860	751,611	3,019,261

Amount includes exchange gains of ¢57,298 million (2005: loss of ¢17,233 million) in respect of the bank. Cash and amounts due from banks are in respect of foreign denominated currencies.

Included in cash and amounts due from Banks is an amount of ¢63 billion (2005: ¢55 billion) in respect of cash pledged as collateral security to cover letters of credit issued by Ghana International Bank (GIB) on behalf of the Bank of Ghana.

14. Gold

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Bank of England Gold set aside	113,067	90,620	113,067	90,620
Bank of England Gold Investment	532,930	427,131	532,930	427,131
Federal Reserve Bank NY Gold	451,467	361,841	451,467	361,841
UBS Gold Investment	485,303	388,959	485,303	388,959
Gold – Local Holdings	59,780	47,912	59,780	47,912
	1,642,547	1,316,463	1,642,547	1,316,463

15. Balances with IMF

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Holdings	10,856	10,032	10,856	10,032
Quota	5,120,613	4,807,701	5,120,613	4,807,701
HIPC Trust	13,631	12,799	13,631	12,799
	5,145,100	4,830,532	5,145,100	4,830,532

16. Loans and advances

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Government	6,083,954	6,851,485	6,083,954	6,851,485
Financial institutions	26,460	26,650	3,869,080	1,770,035
Lending (Note 17a)	14,771	71,256	540,978	473,402
	6,125,185	6,949,391	10,494,012	9,094,922
Less:				
Impairment Losses	(28,324)	(28,324)	(28,324)	(28,972)
	6,096,861	6,921,067	10,465,688	9,065,950

(a) Analysis of Lending

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Gross lending is analysed as follows;				
Agriculture, forestry and fishing	–	–	–	60,042
Mining and Quarrying	–	–	–	2
Transport Storage and Communication	–	–	–	241,966
Business and Other Services	–	–	–	162,199
Commerce and Finance	–	–	526,207	–
Miscellaneous	14,771	71,256	14,771	9,193
	14,771	71,256	540,978	473,402

17. Securities

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Long-term Government securities	4,930,504	4,930,504	4,930,504	4,930,504
Money Market instruments	1,797,122	1,363,200	1,797,122	1,363,200
Short-Term Securities	17,297,530	12,457,506	18,321,694	13,382,915
Others	–	275	32,285	275
	24,025,156	18,751,485	25,081,605	19,676,894

Included in short term securities is an amount of ¢217 billion (2005: ¢214 billion) in respect of cash pledged as collateral security to cover letters of credit issued by Ghana International Bank (GIB) on behalf of Bank of Ghana.

(i) Long-Term Government Securities

This represents interest and non-interest bearing securities which have been issued by the Government of Ghana to cover net exchange losses arising on gold, special drawing rights or foreign securities in accordance with section 7 of the Bank of Ghana Act 2002 (Act 612).

(ii) Short-Term Securities

This represents fixed deposits held with correspondent banks.

18. Other assets

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Items in course of collection	263,121	635,516	263,121	635,516
Revaluation Account	–	(39,399)	–	(39,399)
Others	1,471,189	1,462,655	1,491,794	1,550,918
	1,734,310	2,058,772	1,754,915	2,147,035
Less:				
Impairment Losses	(44,066)	(24,895)	(44,066)	(24,895)
	1,690,244	2,033,877	1,710,849	2,122,140

The balance on the Revaluation Account represents net exchange gains/(losses) arising on translation of the Bank's holdings in gold, special drawing rights or foreign securities in accordance with section 7 of the Bank of Ghana Act, 2002 (Act 612). The Act requires the Government of Ghana to issue redeemable and interest-bearing securities to cover the balance on the revaluation account.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006 CONTINUED

19. Property, plant and equipment

The Bank

	Intangible Assets (Computer Software Licence) ¢'m	Land and Buildings ¢'m	Motor Vehicles ¢'m	Furniture and Fittings ¢'m	Plant and Equipment ¢'m	Work in Progress ¢'m	Total ¢'m
Gross Value							
At 1/1/06	14,339	400,903	55,004	11,060	367,178	131,154	979,638
Adjustments	–	(123)	–	–	(2,147)	449	(1,821)
Additions	–	1,919	4,410	3,508	12,299	105,810	127,946
Transfers	–	3,726	–	(1,051)	–	(2,675)	–
Disposals	–	–	–	(47)	(15)	–	(62)
At 31/12/06	14,339	406,425	59,414	13,470	377,315	234,738	1,105,701
Accumulated Depreciation							
At 1/1/06	8,642	13,282	50,118	2,212	78,478	–	152,732
Adjustment	–	(5)	–	–	(410)	–	(415)
Charge for the year	3,798	13,503	8,239	2,703	80,724	–	108,967
Disposal	–	–	–	(9)	(5)	–	(14)
At 31/12/06	12,440	26,780	58,357	4,906	158,787	–	261,270
Net Book Value							
At 31/12/06	1,899	379,645	1,057	8,564	218,528	234,738	844,431
At 31/12/05	5,697	387,621	4,886	8,848	288,700	131,154	826,906

Intangible asset is in respect of cost of software licence renewable every two years. The acquired licence is amortised over the two-year useful life on a straight line basis.

The residual values and useful lives of assets have been reviewed at the year-end and expectations do not differ from previous estimates.

The Group

	Intangible Assets (Computer Software Licence) ¢'m	Land and Buildings ¢'m	Motor Vehicles ¢'m	Furniture and Fittings ¢'m	Plant and Equipment ¢'m	Work in Progress ¢'m	Total ¢'m
Gross Value							
At 1/1/06	14,339	400,903	55,644	15,398	391,420	131,154	1,008,858
Adjustments	–	(123)	–	–	(2,147)	449	(1,821)
Additions	–	1,919	5,326	3,508	27,819	105,810	144,382
Transfers	–	3,726	–	(1,051)	–	(2,675)	–
Disposals	–	–	(738)	(47)	(15)	–	(800)
Translation Adjustment	–	–	98	663	3,705	–	4,466
At 31/12/06	14,339	406,425	60,330	18,471	420,782	234,738	1,155,085
Accumulated Depreciation							
At 1/1/06	8,642	13,282	50,674	5,613	100,523	–	178,734
Adjustment	–	(5)	–	–	(410)	–	(415)
Charge for the year	3,798	13,503	8,417	3,376	83,876	–	112,970
Released on Disposal	–	–	(708)	(9)	(5)	–	(722)
Translation Adjustment	–	–	85	520	3,369	–	3,974
At 31/12/06	12,440	26,780	58,468	9,500	187,353	–	294,541
Net Book Value							
At 31/12/06	1,899	379,645	1,862	8,971	233,429	234,738	860,544
At 31/12/05	5,697	387,620	4,970	9,785	290,897	131,154	830,123

Intangible asset is in respect of cost of software licence renewable every two years. The acquired licence is amortised over the two-year useful life on a straight line basis.

The residual values and useful lives of assets have been reviewed at the year-end and expectations do not differ from previous estimates.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2006
CONTINUED

20. Development loans and investments

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Developmental Loans	23	23	23	23
Investments – Banks	58,667	58,667	9,452	9,452
Investments – Other Institutions	1,089	1,089	1,089	1,089
	59,779	59,779	10,564	10,564
Impairment Losses	(8,939)	(7,916)	(8,939)	(7,916)
	50,840	51,863	1,625	2,648

Included in investments – Bank is ¢49,215 million representing 51% equity holding in Ghana International Bank Plc, a commercial bank incorporated in the United Kingdom.

21. Currency in circulation

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Notes and Coins Issued	13,216,974	10,898,126	13,216,974	10,898,126
Less: Cash Account & Agencies	(2,309,460)	(2,377,605)	(2,309,460)	(2,377,605)
	10,907,514	8,520,521	10,907,514	8,520,521

22. Deposits

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Government	7,977,136	7,531,388	7,977,136	7,531,388
Financial Institutions/Banks	4,246,295	2,734,548	5,318,829	3,297,159
Others	769,106	1,090,253	3,048,624	2,617,903
	12,992,537	11,356,189	16,344,589	13,446,450

23. Liabilities to IMF

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
(i) IMF Currency Holdings				
IMF No. 1	482,683	442,389	482,683	442,389
IMF No. 2	58	54	58	54
IMF Securities	4,637,930	4,365,312	4,637,930	4,365,312
(ii) IMF Facilities				
Poverty Reduction and Growth Facility	1,424,997	3,804,658	1,424,997	3,804,658
	6,545,668	8,612,413	6,545,668	8,612,413

The Bank has been a member of the International Monetary Fund (IMF) since 20th September 1957. The Bank is a designated fiscal agent and the depository for the IMF's holdings of local currency. The IMF's holdings of local currency amounted to the equivalent of SDR 369 million (2005: SDR 369 million). IMF currency holdings equivalent to SDR 34,782,985 and SDR 4,171 are held in the IMF's No.1 and No. 2 accounts respectively. These are deposit accounts of the IMF with the Bank.

24. Liabilities under money market operations

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Bank of Ghana Instruments	5,483,884	6,923,997	5,483,884	6,923,997
FINSAP Bonds	52,592	52,592	52,592	52,592
	5,536,476	6,976,589	5,536,476	6,976,589

These are securities issued and utilised by the Bank for monetary policy purpose and are shown as a liability of the Central Bank of Ghana to the buyers.

25. Other liabilities

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Accruals and Account payable	151,692	133,513	195,514	164,753
Provision for Pension Fund	200,000	–	200,000	–
Others	2,090,111	652,393	2,249,466	729,246
	2,422,333	785,908	2,625,510	893,999

The provision for pension fund is in respect of the bank's obligation to the employee benefit scheme. Management commissioned a consultant to carry out actuarial valuation of the scheme in 2005. The actuarial valuation set the bank's obligation at approximately ¢1.5 trillion at 31 December 2006.

26. Stated capital

	Number of Shares		Proceeds	
	2006 '000	2005 '000	2006 ¢'m	2005 ¢'m
Registered Number of shares	700,000	700,000		
Issued				
For Cash Consideration	100	100	100	100
Other than Cash	99,900	99,900	99,900	99,900
	100,000	100,000	100,000	100,000

There are no shares in treasury and no instalments unpaid on any share. Shares are of no par value.

27. Asset revaluation reserve

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Balance at 1st January	589,304	35,962	589,304	35,962
Revaluation Surplus	–	553,342	–	553,342
Balance at 31st December	589,304	589,304	589,304	589,304

This represents surplus arising on the revaluation of the Bank's properties.

28. General reserve

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Balance at 1st January	76,673	72,548	76,673	72,548
Transfer from Profit	6,828	4,125	6,828	4,125
Balance at 31st December	83,501	76,673	83,501	76,673

The Statutory Reserve represents portions of surplus for the years that have been set aside in accordance with section 6 of the Bank of Ghana Act, 2002 (Act 612).

29. Other reserves

	Price Exchange ¢'m	General Provision ¢'m	2006 ¢'m	2005 ¢'m
The Bank				
Balance at 1st January	–	–	552,750	598,147
Increase/Decrease in the year	323,668	530,000	853,668	(45,397)
Reclassification from Liabilities	–	227,428	227,428	–
Balance at 31st December	323,668	757,428	1,633,846	552,750

	Price & Exchange Difference	General Provision	Translation Reserve	2006	2005
The Group					
Balance at 1st January	–	–	–	696,949	780,154
Increase/Decrease in the year	323,668	530,000	43,128	896,796	(83,205)
Reclassification from Liabilities	–	227,428	–	227,428	–
	323,668	757,428	43,128	1,821,173	696,949

This represents the unrealised gains and losses on revaluation of gold holdings as a result of the change in the spot market price and exchange gains and losses arising from the translation of the subsidiary's financial statements for consolidation purposes. The balance also includes amounts set aside from surplus for the year to support specific operational expenses in accordance Section 6 of the Bank of Ghana Act, 2002 (Act 612).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006 CONTINUED

30. Commitments and contingent liabilities

(a) Guarantees and performance bonds

The Bank enters into various commitments in the normal course of its business, which are not reflected in the accompanying balance sheet. The amount of guarantees and performance bonds outstanding, some of which are offset by corresponding obligations of the Government, as at 31 December 2006 was ¢1,102 billion (2005: ¢823 billion).

(b) Capital Expenditure

The Bank had capital expenditure commitments of ¢54,600 million not provided for in the financial statements as at 31 December 2006 (2005: ¢179,609 million).

(c) Pending Legal Claims

There are contingent liabilities in respect of pending legal suits against the Bank amounting to ¢18.4 billion (2005: ¢329.5 billion).

(d) Documentary credits

Contingent liabilities in respect of documentary credits held with Ghana International Bank UK amounted to about ¢19.6 billion (2005: ¢75 billion).

(e) Operating Lease

There was no commitment in respect of operating lease during the year (2005:Nil).

31. Related party transactions

Transactions with Government of Ghana/IMF

The Bank and the Government of Ghana have borrowings from the IMF, which have been undertaken through the Bank. The Government's IMF borrowings, as shown on the balance sheet of the Bank, have been matched by a receivable from the Government. These are as disclosed in notes 15 and 23 respectively.

In order for the Bank to eliminate foreign exchange risk in this regard, the Government receivable is denominated in SDRs.

Interest on such borrowings is the responsibility of, and payable by, the Government. Accordingly no interest revenue is included in these accounts for the receivable nor is interest expense included on the Government's portion of the IMF borrowings.

IMF quota is supported by promissory notes jointly signed by the Bank and the Government.

Government Bank Accounts

Government budget organisations and other government organisations have normal customer banking arrangements with the Bank.

32. Risk management disclosures

The Bank maintains active trading positions in non-derivative financial instruments. To carry out its functions, the bank carries an inventory of money market instruments and maintains access to market liquidity by dealing with other market makers. As dealing strategies adopted by the Bank depend on its specific function as a central bank, its positions are managed in concert to maximise net trading income by defining acceptable risk levels and endeavouring to maximise income at those levels.

The Bank manages its activities by type of risk involved and on the basis of the categories of investments held.

The discussion below sets out the various risks to which the Bank is exposed as a result of its operational activities, and the approach taken to manage those risks. Further details of the steps taken to measure and control risk are set out in the Bank's risk management and control procedures.

(a) Credit Risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process.

The risk that counter parties to trading instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank deals with counterparts of good credit standing.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for banks for counter parties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The risk that counter parties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank deals with counter parties of good credit standing. The credit risk on debt instruments is evaluated at one of the two highest quotations of two internationally acknowledged credit rating agencies.

(b) Liquidity Risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets to appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank usually has access to a diverse funding base. Funds are raised using a range of instruments including deposits, other liabilities regulated by law and other credit facilities. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meets its goals and targets set in terms of overall Bank Strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(c) Market Risk

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognised at fair value, and all changes in market directions directly affect net trading income.

The Bank manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments or entering into offsetting positions.

(d) Interest Rate Risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference between re-pricing characteristics of the various floating rate indices, such as the savings rate and six months LIBOR and different types of interest. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's strategies..

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The actual effect will depend on a number of factors, including the extent to which repayments are made earlier to later than the contracted dates and variations in interest rate sensitivity within re-pricing periods and amongst currencies.

The rates below show the extent to which the Bank's interest rate exposures on assets and liabilities are matched. These are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and maturity.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2006
CONTINUED

Maturity profile analysis

The Bank

	Up to 1 mth ¢'m	B/n 1 mth & 3 mths ¢'m	B/n 3 mths & 1 yr ¢'m	B/n 1 yr & 5 yrs ¢'m	> 5 years ¢'m	Total ¢'m	2005 ¢'m
Assets							
Cash and Amounts due from Banks	2,003,943	–	–	–	–	2,003,943	3,465,860
Gold	113,067	–	1,529,480	–	–	1,642,547	1,316,463
Balances with International Monetary Fund	24,487	5,120,613	–	–	–	5,145,100	4,830,532
Securities	9,176,641	8,378,632	526,440	1,012,940	4,930,504	24,025,156	18,751,485
Loans and Advances	6,096,861	–	–	–	–	6,096,861	6,921,067
Other Assets	1,690,244	–	–	–	–	1,690,244	2,033,877
Property, Plant and Equipment	–	–	113,525	299,851	431,056	844,432	826,906
Development Loans and Investments	1,625	–	–	–	49,215	50,840	51,863
Total	19,106,868	13,499,245	2,169,445	1,312,791	5,410,775	41,499,122	38,198,053
Liabilities							
Currency in Circulation	–	–	–	–	10,907,514	10,907,514	8,520,521
Allocations of Special Drawing Rights	874,015	–	–	–	–	874,015	820,606
Deposits	12,992,537	–	–	–	–	12,992,537	11,356,189
Liabilities to IMF	–	–	1,424,997	5,120,671	–	6,545,668	8,612,413
Liabilities under Money Market Operations	1,029,373	482,488	2,191	4,022,425	–	5,536,476	6,976,589
Other Liabilities	2,270,668	–	151,665	–		2,422,333	785,908
Deferred Income							
Total	17,166,593	482,488	1,578,853	9,143,096	10,907,514	39,278,543	37,072,226
Maturity Surplus/(shortfall)	**1,940,275**	**13,016,757**	**590,592**	**(7,830,305)**	**(5,496,739)**	**2,220,579**	**1,125,827**

Maturity profile analysis

The Group

	Up to 1 mth ¢'m	B/n 1 mth & 3 mths ¢'m	B/n 3 mths & 1 yr ¢'m	B/n 1 yr & 5 yrs ¢'m	> 5 years ¢'m	Total ¢'m	2005 ¢'m
Assets							
Cash and Amounts due from Banks	751,611	–	–	–	–	751,611	3,019,261
Gold	113,067	–	1,529,480	–	–	1,642,547	1,316,463
Balances with International Monetary Fund	24,487	5,120,613	–	–	–	5,145,100	4,830,532
Securities	9,208,927	9,319,773	609,461	1,012,940	4,930,504	25,081,605	19,676,894
Loans and Advances	8,937,927	861,460	219,973	424,268	22,060	10,465,688	9,065,950
Other Assets	1,690,249	–	–	–	20,601	1,710,849	2,122,140
Property, Plant and Equipment	–	–	113,525	315,963	431,056	860,544	830,123
Development Loans and Investments	1,625	–	–	–	–	1,625	2,648
Deferred Tax Assets	–	–	–	–	957	957	1,520
Total	20,727,893	15,301,846	2,472,438	1,753,172	5,405,177	45,660,526	40,865,531
Liabilities							
Currency in Circulation	–	–	–	–	10,907,514	10,907,514	8,520,521
Allocations of Special Drawing Rights	874,015	–	–	–	–	874,015	820,606
Deposits	13,623,667	2,456,543	264,378	–	–	16,344,589	13,446,450
Liabilities to IMF	–	–	1,424,997	5,120,671	–	6,545,668	8,612,413
Provision for corporation tax	–	–	–	15,459	–	15,459	10,504
Liabilities under Money Market Operations	1,029,373	482,488	2,191	4,022,425	–	5,536,476	6,976,589
Other Liabilities	2,270,918	–	151,665	43,821	159,106	2,625,510	893,999
Deferred Income							
Total	17,797,973	2,939,031	1,843,231	9,202,377	11,066,620	42,849,231	39,281,082
Minority Interest						313,478	249,601
Maturity Surplus/(shortfall)	**2,929,920**	**12,362,815**	**629,208**	**(7,449,205)**	**(5,661,443)**	**2,497,817**	**1,334,848**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2006
CONTINUED

Interest rate repricing analysis

The Bank

	3 mths or less ¢'m	B/n 3 & 12 mths ¢'m	Over 1 yr ¢'m	Non bearing ¢'m	Total ¢'m	2005 ¢'m
Assets						
Cash and Amounts due from Banks	299,920	1,463,042	–	240,981	2,003,943	3,465,860
Gold	–	427,131	–	1,215,416	1,642,547	1,316,463
Balances with International Monetary Fund	–	5,132,302	–	12,799	5,145,100	4,830,532
Securities	17,542,875	38,124	6,444,155	2	24,025,156	18,751,485
Loans and Advances	–	–	–	6,096,861	6,096,861	6,921,067
Other Assets	–	–	–	1,690,244	1,690,244	2,033,877
Property, Plant and Equipment	–	–	–	844,431	844,431	826,906
Development Loans and Investments	–	–	–	50,840	50,840	51,863
Total Assets	17,842,795	7,060,598	6,444,155	10,151,574	41,499,122	38,198,053
Liabilities						
Currency in Circulation	–	–	–	10,907,514	10,907,514	8,520,521
Allocations of Special Drawing Rights	–	–	–	874,015	874,015	820,606
Deposits	–	–	–	12,992,537	12,992,537	11,356,189
Liabilities to IMF	–	6,545,668	–	–	6,545,668	8,612,413
Liabilities under Money Market	–	5,536,476	–	–	5,536,476	6,976,589
Other Liabilities	–	–	–	2,422,333	2,422,333	785,908
Deferred Income						
Total Liabilities	–	12,082,144	–	27,196,399	39,278,543	37,072,226
Assets-liability gap	**17,842,795**	**(5,021,546)**	**6,444,155**	**17,044,825**	**2,220,579**	**1,125,827**

Interest rate repricing analysis

The Group

	3 mths or less ¢'m	B/n 3 & 12 mths ¢'m	Over 1 yr ¢'m	Non bearing ¢'m	Total ¢'m	2005 ¢'m
Assets						
Cash and Amounts due from Banks	952,412	1,463,042	–	240,981	751,611	3,019,261
Gold	–	427,131	–	1,215,416	1,642,547	1,316,463
Balances with International Monetary Fund	–	5,132,302	–	12,799	5,145,100	4,830,532
Securities	18,516,302	121,145	6,444,155	2	25,081,605	19,676,894
Loans and Advances	3,620,276	553,897	194,655	6,096,861	10,465,688	9,065,950
Other Assets	–	–	–	1,710,850	1,710,850	2,122,140
Property, Plant and Equipment	–	–	–	860,544	860,544	830,123
Development Loans and Investments	–	–	–	1,625	1,625	2,648
Deferred Tax Assets	–	–	–	957	957	1,520
Total Assets	21,184,166	7,697,516	6,638,810	10,140,035	45,660,527	40,865,531
Liabilities						
Currency in Circulation	–	–	–	10,907,514	10,907,514	8,520,521
Allocations of Special Drawing Rights	–	–	–	874,015	874,015	820,606
Deposits	2,195,501	263,029	1,349	13,884,709	16,344,589	13,446,450
Liabilities to IMF	–	6,545,668	–	–	6,545,668	8,612,413
Provision for corporation tax	–		–	15,459	15,459	
Liabilities under Money Market	–	5,536,476	–		5,536,476	10,504
Other Liabilities	–	–	–	2,625,511	2,625,510	6,976,589
Deferred Income						893,999
Total Liabilities	2,195,501	12,345,173	1,349	28,307,208	42,849,232	39,281,082
Minority Interest					313,478	249,601
Assets-liability gap	**18,988,665**	**(4,647,658)**	**6,637,461**	**(18,167,173)**	**2,497,817**	**1,334,848**

(e) Currency Risk

The Bank is exposed to currency risk through transactions in foreign currencies. It does not make investments in foreign operations.

The Bank prepares and presents its financial statements in terms of the Ghana cedi. As a result movement in the exchange rates of the various foreign currencies in which the Bank maintains selected assets and liabilities impacts these financial statements.

The Bank's foreign currency denominated transactions and balances give rise to exchange gains and losses that are recognised in the financial statements in accordance with note 5 (d).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2006
CONTINUED

33. The foreign currency exposures are as follows:

Currency exposure analysis

The Bank

	Dec 2006 ¢'m	Dec 2005 ¢'m
Assets		
Cedi	15,527,734	16,025,665
US Dollar	19,317,331	12,747,623
Pound Sterling	821,172	2,282,441
Euro	398,611	1,715,920
Special Drawing Rights	5,148,132	4,830,532
Others	286,142	595,872
Total	**41,499,122**	**38,198,053**
Liabilities & equity		
Cedi	31,279,316	26,801,477
US Dollar	3,673,079	1,894,442
Pound Sterling	166,517	115,832
Euro	367,398	286,345
Special Drawing Rights	5,994,686	9,086,114
Others	18,126	13,843
Total	**41,499,122**	**38,198,053**
Net position		
Cedi	(15,751,582)	(10,775,812)
US Dollar	15,644,252	10,853,181
Pound Sterling	654,655	2,166,609
Euro	31,213	1,429,575
Special Drawing Rights	(846,554)	(4,255,582)
Others	268,017	582,029
Total	**0**	**0**

Currency exposure analysis

The Group

	Dec 2006 ¢'m	Dec 2005 ¢'m
Assets		
Cedi	15,527,734	16,025,664
US Dollar	21,821,394	14,334,287
Pound Sterling	2,233,829	3,321,274
Euro	620,964	1,838,728
Special Drawing Rights	5,148,132	4,830,532
Others	308,472	515,046
Total	**45,660,526**	**40,865,531**
Liabilities & equity		
Cedi	31,279,316	26,801,476
US Dollar	6,170,556	3,477,665
Pound Sterling	1,586,169	1,069,174
Euro	588,809	408,613
Special Drawing Rights	5,994,686	9,086,114
Others	40,990	22,489
Total	**45,660,526**	**40,865,531**
Net position		
Cedi	(15,751,582)	(10,775,812)
US Dollar	15,650,838	10,856,622
Pound Sterling	647,661	2,252,100
Euro	32,155	1,430,115
Special Drawing Rights	(846,554)	(4,255,582)
Others	267,482	492,557
Total	**0**	**0**

34. Notes to cash flow statement for the year ended 31st December 2006

(a) The Bank

Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities

	2006 ¢'m	2005 ¢'m
Surplus/(Deficit) for the year	557,572	8,251
Decrease/(Increase) in Other Assets	329,588	(261,413)
Increase/(Decrease)/in Other Liabilities, Assets & Reserve Adjustments	2,718,928	(268,071)
Depreciation	108,967	105,652
(Profit) on Sale of Property, Plant & Equipment	37	–
Net Profit appropriations	(543,916)	–
Net Increase in Deposit Accounts	1,636,348	896,289
Decrease/(Increase) in Advances	824,207	(66,308)
Price change in Gold	(312,039)	(195,850)
Increase in Securities	(5,273,671)	(470,090)
Net Cash Outflow from Operating Activities	46,021	(251,540)

(b) The Group

Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities

	2006 ¢'m	2005 ¢'m
Surplus/(Deficit) for the year	649,941	67,714
Decrease/(Increase) in Other Assets	397,247	(305,122)
Increase/(Decrease) in Other Liabilities, Assets & Reserve Adjustments	2,854,985	(214,016)
Depreciation	112,970	109,473
Loss on Sale of Property, Plant & Equipment	(42)	–
Net Increase/(Decrease) in Deposit Accounts	2,898,139	(156,878)
(Increase)/decrease in Advances	(1,399,738)	1,417,991
Price change in Gold	(312,039)	(195,849)
Increase in Securities	(5,907,231)	(930,980)
Net Cash Outflow from Operating Activities	(705,768)	(207,668)

35. Departures from IFRS

The following represent material departure from IFRS.

Treatment of exchange differences on specified balances

As discussed in Note 5(d), net unrealised foreign exchange loss of ¢13,916 million (2005: gain of ¢39,399 million) on gold, Special Drawing Rights (SDRs) with the International Monetary Fund or holdings of foreign securities were charged directly to Revaluation Account included in other assets under note 18 in accordance with requirement under Section 7 of the Bank of Ghana Act, 2002 (Act, 612) instead of the income statement as required by IAS 21.

The impact of the departures stated under (i) above on the financial statements is shown below.

	The Bank		The Group	
	2006 ¢'m	2005 ¢'m	2006 ¢'m	2005 ¢'m
Income Statement				
Surplus/(Deficit) for the year	557,572	8,251	582,661	25,238
Exchange gain/(loss) charged to Revaluation Account	(53,315)	606,804	(53,315)	606,804
Provisions	–	10,000	–	10,000
Surplus/(Deficit) for the year restated	504,257	625,055	529,346	642,042
Equity/Net Assets				
Net assets reported	2,220,579	1,125,827	2,497,817	1,334,848
Restatements per above	(53,315)	616,804	(53,315)	616,804
Net assets restated	2,167,264	1,742,631	2,444,502	1,951,652

36. Effective interest rates of financial assets and liabilities

The effective interest rates for the principal financial assets at 31st December 2006 and 2005 were in the following ranges:

	2006	2005
Assets		
Securities – Government	0 – 28%	0 – 28%
External	1 – 3%	1 – 3%
Loans and Advances	12.5 – 15.5%	15.5 – 18.5%
Liabilities		
Deposits	0%	0%
Liabilities under Money Market Operations	9.94 – 11.43%	11.43 – 21.5%

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