



BANK OF GHANA

Monetary Policy Report

VOLUME 2 NO. 3

May 2008

MONETARY & FINANCIAL DEVELOPMENTS

1.0 Summary of developments in 2008

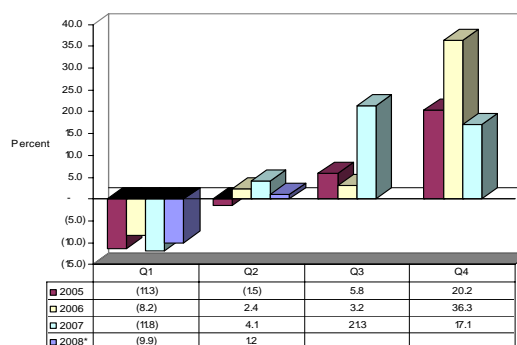
- Latest provisional data available for Q1 through early Q2 2008 on the key monetary aggregates show:
 - A continued strong monetary expansion, underpinned by similarly robust domestic credit expansion by the banking system, the latter supported by the significant structural changes within the banking system and bolstered by the scrapping of secondary reserve requirements for the banks in 2006.
 - Distribution of private sector credit remains broad-based, with increased significance of the shares of services sector and households.
- Developments in the money market in the first quarter and early part of the second quarter have been shaped by rising CPI inflation and some shift in preferences towards short-dated securities. Interest rates on the auction market saw significant realignment in line with the last Monetary Policy Committee decision beginning initially with the short term end of the auction market and extending across long term rates.

2.0 REVIEW OF DEVELOPMENTS IN MONETARY AGGREGATES

2.1.1 Reserve Money (RM)

After peaking in December 2007 with a seasonal quarterly surge of 17.1 per cent following the strong cocoa crop output, provisional figures on RM show an unwinding of 9.9 per cent in Q1. This compares with unwinding of 8.2 per cent and 11.8 per cent respectively for Q1 2006 and Q1 2007 (Chart 1a). RM in Q2 2008 (through April) had risen marginally by 1.2 per cent against some 4.1 per cent in Q2 2007. The developments through April 2008 thus cumulatively placed RM on similar path with developments over the same period in 2007 compared with developments in 2006.

Chart 1a: Comparative Q-on-Q trends in RM (2005 - 2008)



Year-on-year RM growth is however provisionally estimated at 36.8 per cent at end-April 2008 compared with 20.6 per cent over the same period in 2007 and 30.6 per cent at end-2007 (Table 1).

The growth in RM in the 12-month period to April 2008 was supported by a continued strong expansion of the net foreign assets of the Bank of Ghana estimated at 17.4 per cent (y-on-y) in April 2008. NDA of the Bank of Ghana similarly rose by some 23.5 percent mainly on account of strong net claims on government. The growth in RM in 2008 was reflected in all the components (Table 1).

Chart 1b: Trends in reserve money (cumulative flow)

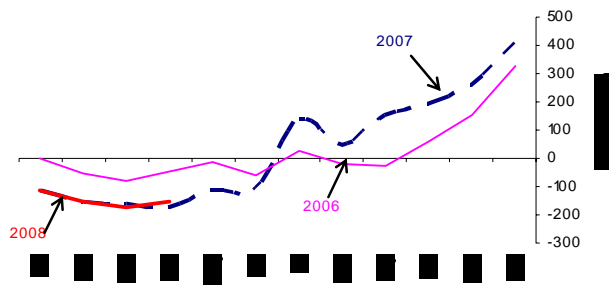


Chart 1c: Evolution of Reserve Money Growth (y-on-y)

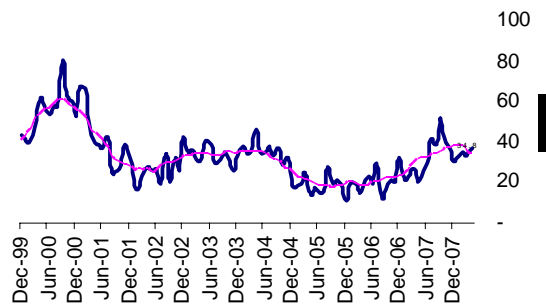


Table 1: Sources of Growth in Reserve Money (RM): BOG
April 2005 to April 2008

	Gh Cedis (million) unless otherwise stated					Per cent change (Q-on-Q)		Per cent change (Y-on-Y)		
	Apr-06	Dec-06	Apr-07	Dec-07	Apr-08	Q1 06	Q1 07	Apr-06	Apr-07	Apr-08
Net Foreign Asset	1614	1892	1718	2459	2018	-17	-21	72.6	6.5	17.4
NFA (\$ equiv.) \$million	1766	2048	1858	2543	2044	-17	-22	71.5	5.3	10.0
Net Domestic Asset	-646	-204	-552	-402	-422	7	67	-444.0	14.7	23.5
Of which:										
<i>Claims on government (net)</i>	504	485	431	314	713	9	63	-17.5	-14.5	65.5
<i>Claims on DMB's (net)</i>	-110	-243	-340	-270	-382	22	-53	18.4	-210.1	-12.3
Reserve Money (RM)	968	1341	1167	1751	1596	-11.8	-9.9	18.5	20.6	36.8
Of which:										
<i>Currency</i>	743	1020	866	1318	1127	-14	-14	16.3	16.5	30.2
<i>DMB's reserves</i>	215	301	289	425	443	-0.3	-4	26.9	34.2	53.6
<i>Non-bank deposits</i>	10	21	13	8	26	-65	382	23.4	31.2	103.2
<i>Annual per cent contribution</i>										
NFA	83.2		10.8		25.7					
NDA	-64.6		9.8		11.1					
RM growth (y-on-y)	18.5		20.6		36.8					

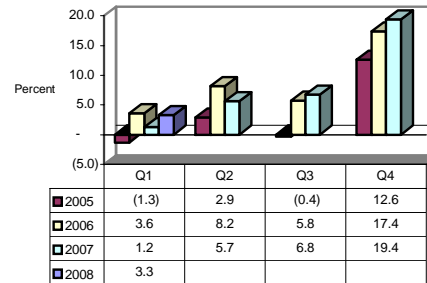


2.1.2 Money Supply

2.1.2.1 Quarterly Developments

Provisional data available show that broad money (M2+) increased by 3.3 per cent in Q1 2008 following the seasonal surge of 19.4 per cent in Q4 2007 and an increase of 1.2 per cent in Q1 2007.

Chart 2a: Comparative Q-on-Q trends in M2+ (2005 - 2008)



2.1.2.2 Annual Developments

Annual M2+ growth in March 2008 was strong at 39.2 per cent, up from 35.9 per cent recorded for the same period in 2007. The growth in M2+ in 2008 has been mainly supported by expansion of NDA of the banking system, underpinned by continued strong expansion of credit to the private sector (including P.Es) by the banking system. Claims of the banking system on

Chart 2b: Evolution of M2+ Growth (y-o-n-y)

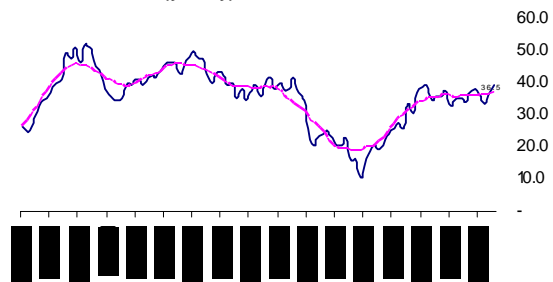


Table 2: Sources of Growth in Total Liquidity (M2+)

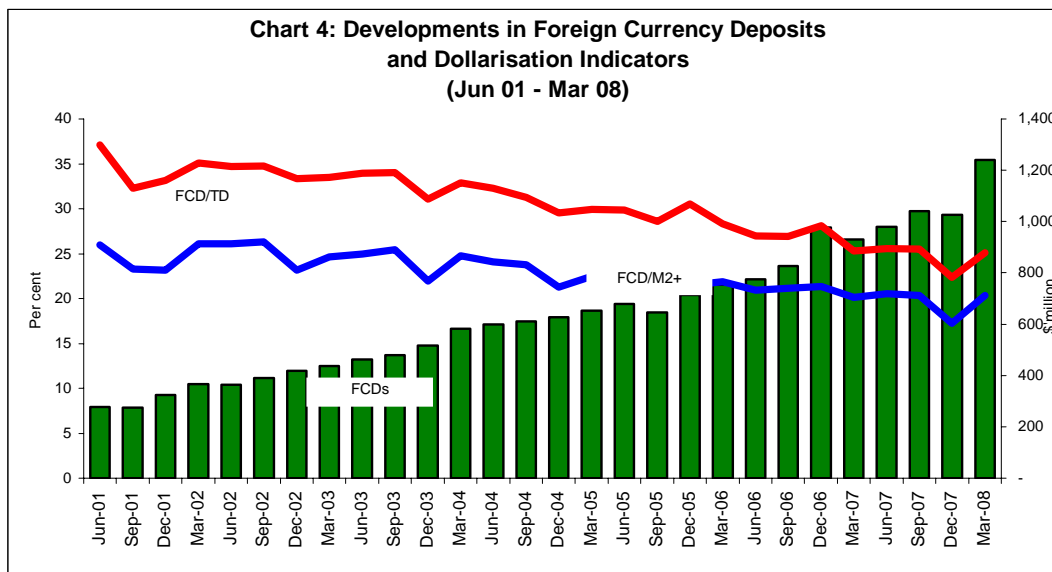
	Mar-06	Dec-06	Mar-07	Dec-07	Mar-08	Per cent (Q-on-Q)		Per cent (Y-on-Y)		
						Q1 07	Q1 08	Mar-06	Mar-07	Mar-08
Net Foreign Asset	1872.7	2184.8	1729.0	2521.8	2044.8	-20.9	-18.9	50.4	-7.7	18.3
<i>Bank of Ghana</i>	1585.0	1891.7	1567.6	2459.5	1939.1	-17.1	-21.2	67.1	-1.1	23.7
<i>Commercial Banks</i>	287.6	293.1	161.4	62.3	105.7	-44.9	69.7	-2.9	-43.9	-34.5
Net Domestic Asset	1277.4	3563.8	2553.4	4868.2	3914.4	-28.4	-19.6	-8.0	99.9	53.3
<i>ow: Claims on gove</i>	1346.2	1487.7	1660.7	1162.7	1390.0	11.6	19.5	4.2	23.4	-16.3
<i>BOG</i>	465.1	484.5	529.2	313.9	510.9	9.2	62.7			
<i>DMBs</i>	881.1	1003.1	1131.5	848.8	879.1	12.8	3.6			
<i>ow: Claims on Priva</i>	1918.2	2521.5	2821.7	4151.1	4441.5	11.9	7.0	37.5	47.1	57.4
Total Liquidity (M2+)	3150.1	4230.3	4282.4	5767.4	5959.2	1.2	3.3	19.6	35.9	39.2
Broad Money Supply	2460.8	3327.8	3420.2	4774.5	4746.6	2.8	-0.6	20.6	39.0	38.8
Narrow Money Supply	1567.8	2094.8	2025.9	2947.9	2826.3	-3.3	-4.1	14.0	29.2	39.5
<i>Currency with non-t</i>	718.7	1019.6	876.6	1318.4	1130.3	-14.0	-14.3	12.7	22.0	28.9
<i>Demand Deposits</i>	849.1	1075.2	1149.3	1629.5	1696.0	6.9	4.1	15.1	35.4	47.6
Quasi-Money	892.9	1233.0	1394.2	1826.6	1920.3	13.1	5.1	34.2	56.1	37.7
Foreign Currency Dep	689.3	902.4	862.2	992.9	1212.6	-4.5	22.1	16.3	25.1	40.6
Foreign Currency Dt	754.3	977.2	930.2	1026.5	1239.9	-4.8	20.8	15.5	23.3	33.3
<i>Memorandum items</i>										
Total Deposits	2431.4	3210.6	3405.8	4449.0	4828.9	6.1	8.5	21.8	40.1	41.8
Reserve Money	930.8	1341.3	1183.6	1751.3	1577.2	-11.8	-9.9	15.1	27.2	33.3
NFA (\$million)	2049.1	2365.7	1865.2	2607.0	2090.8					
Currency ratio	0.30		0.26		0.23					
RM multiplier	2.64		2.89		3.01					
<i>Annual per cent contribution to money supply growth</i>										
NFA	23.8		-4.6		7.4					
NDA	-4.2		40.5		31.8					
M2+	19.6		35.9		39.2					

the private sector (including P.Es) grew significantly by 57.4 per cent in March 2008 compared with 47.1 per cent at end-March 2007. Year-on-year growth in NFA of banking system supported by NFA of BOG, was 18.3 per cent higher compared to a decline of 7.7 per cent during the same period in 2007 (Table 2).

The increase in total liquidity is reflected mainly in a continued robust pace of deposit mobilization by the banks on account of the significant structural changes within the banking system with the opening of new branches and introduction of new products to attract deposits. Over the 12-month period to March 2008, total deposits increased by 41.8 per cent on top of the 40.1 per cent for the same period in 2007. Currency outside banks similarly remained somewhat strong, recording an annual growth of 28.9 per cent at end-March 2008, up from 22.0 per cent recorded for the same period in 2007. However, the currency ratio continued on a downward trend with the strong deposit growth (Table 2).

2.1.2.3 Foreign currency deposits (Measures of dollarisation)

The shares of foreign currency deposits (FCD) in the money supply, M2+, (i.e. FCD/M2+) and the share of FCDs in total deposits (TD), i.e. FCD/TD, are two of the most common indicators of dollarization. Steady increases in these ratios are an indication of stepped-up dollarization of the economy ¹.



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



FCDs have shown significant and broadly sustained increases since 2001, reaching the equivalent of \$1,239.88 million (33.3 per cent, y-on-y and 22.1 per cent in Q1 2008) in March 2008, from \$1,026.37 million in December 2007 and \$977.16 million at end-2006.

With relative exchange rate stability since 2001 however, trends in the measures of dollarization reveal continued slowdown generally. The FCD/M2+ ratio significantly eased further to 17.2 per cent in December 2007 from 20.3 per cent at end-Q3 2007 and 21.3 per cent at end 2006. The strong growth in FCDs in Q1 2008 however resulted in an up-tick in the ratio to 20.2 per cent.

3.0 DEVELOPMENTS IN DEPOSIT MONEY BANKS' CREDIT

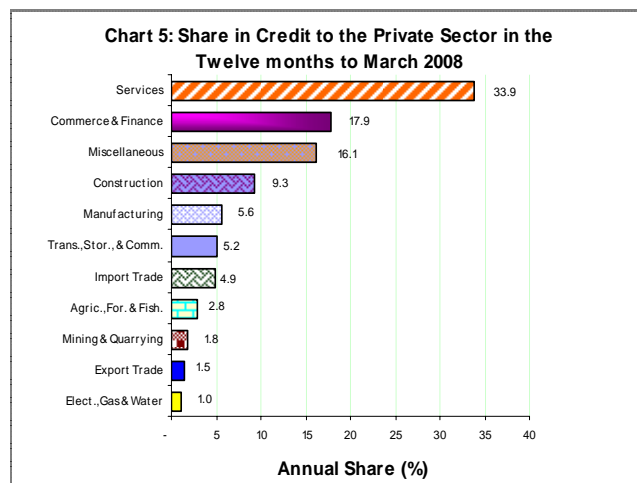
3.1.1 Annual Credit Developments

DMBs total credit to the private sector and public institutions over the 12-month period to March 2008 increased by GH¢1,615.8 million (57.3 per cent) compared with GH¢846.0 million (50.4 per cent) recorded for the same period in 2007. The private sector accounted for GH¢1,308.2 million (81.0 per cent) of the credit flow.

	2007 Mar		2008 Mar		Annual Change		Share in Annual Change (%)
	GH¢ mm	Share(%)	GH¢ mm	Share(%)	GH¢ mm	%	
1. Public Institutions	569.6	20.2	877.3	19.8	307.7	54.0	19.0
2. Private Sector	2,252.3	79.8	3,560.5	80.2	1,308.2	58.1	81.0
Agric., For. & Fish.	129.9	5.8	166.8	4.7	36.9	28.4	2.8
Export Trade	33.4	1.5	52.5	1.5	19.1	57.2	1.5
Manufacturing	438.8	19.5	512.7	14.4	73.9	16.8	5.6
Trans., Stor., & Comm.	61.5	2.7	128.9	3.6	67.4	109.6	5.2
Mining & Quarrying	111.6	5.0	134.7	3.8	23.1	20.7	1.8
Import Trade	147.4	6.5	211.3	5.9	63.9	43.3	4.9
Construction	210.1	9.3	332.3	9.3	122.1	58.1	9.3
Commerce & Finance	376.7	16.7	610.8	17.2	234.1	62.2	17.9
Elect., Gas & Water	52.8	2.3	66.3	1.9	13.5	25.5	1.0
Services	483.5	21.5	926.8	26.0	443.3	91.7	33.9
Miscellaneous	206.6	9.2	417.3	11.7	210.8	102.0	16.1
3. Total (1+2)	2,821.9	100.0	4,437.7	100.0	1,615.8	57.3	100.0

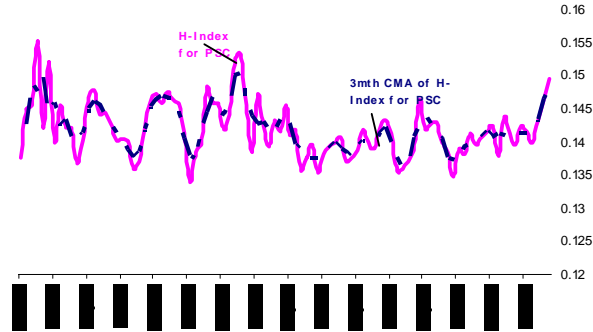
3.1.2 Credit to the Private Sector

Credit to the private sector over the 12-month to March 2008 rose by GH¢1,308.2 million (58.1 per cent) following GH¢810.0 million (56.2 per cent) during same period in 2007. Distribution of the annual credit flow continues to be broad-based as all sectors recorded some increases in credit over the period. However, there continues to be



significant increases in credit to services (33.9 per cent), commerce and finance (17.9 per cent), miscellaneous (16.1 per cent), construction (9.3 per cent), manufacturing (5.6 per cent) and transportation, storage and communication (5.4 per cent). These sectors together accounted for 88.0 per cent of the credit flow over the period. The remaining sectors recorded increases of between 1.0 per cent and 4.9 per cent. The Herfindahl Index of the sectoral concentration of credit to the private sector indicates some strengthening in concentration but within the moderate range of concentration.

Chart 6: Herfindahl Index for PSC



3.1.3 Outstanding credit by type of Borrower (Gh¢ mn)

User distribution of the flow of credit to the private sector similarly remained broad-based with increased significance of households. Enterprises absorbed 69.9 per cent of credit to the private sector over 12-month period to March 2008, down from 82.8 per for the same period in 2007. The share of households on the other hand rose to 27.4 per cent from 15.0 per cent over the same period. On year on year basis, credit to households increased by 85 per cent, up from 41 per cent.

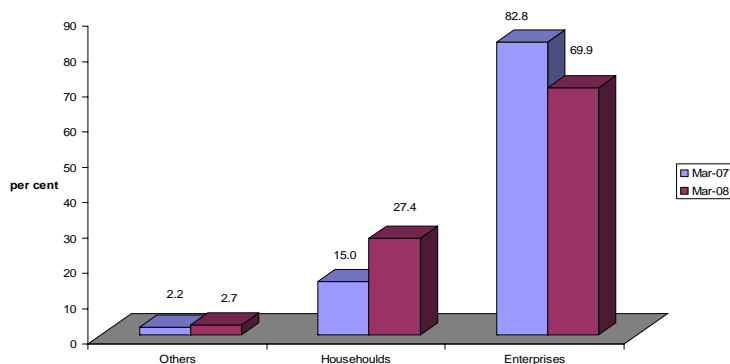
Table 4: Outstanding credit by type of Borrower (Gh¢ mn)						
	Public	Private			Overall Total	
		Enterprises	Households	Others		
Mar-07	569.58	1,794.10	420.62	37.58	2,252.31	2,821.88
Mar-08	877.25	2,708.54	779.14	72.78	3,560.46	4,437.71

Annual Flows (Gh¢ mn)						
Mar-07	136	671	121	18	810	946
Mar-08	308	914	359	35	1,308	1,616

Shares in Flows (per cent)						
Mar-07	14	83	15	2	100	
Mar-08	19	70	27	3	100	

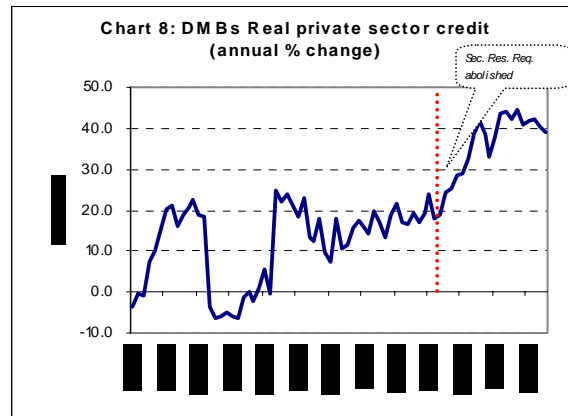
Annual Per cent change						
Mar-07	31	60	41	90	56	50
Mar-08	54	51	85	94	58	57

Chart 7: Share in Flow of Credit to the Private Sector in the Twelve months to March 2008 (Type of Borrower)



3.1.4 Credit to the Private Sector in per cent of GDP and real private sector credit

As per cent of GDP and in real terms, DMBs' credit to the private sector has remained robust. This has especially followed the abolition of secondary reserve requirements for the banks alongside the significant structural changes within the banking system with the opening of new branches and introduction of new products. PSC rose to 21.9 per cent of GDP in March



2008 up from 16.1 per cent in March 2007. Annual growth of inflation-adjusted credit was 38.9 per cent in March 2008 down from 41.7 per cent in March 2007 and 17.8 per cent in July 2006 when secondary reserve requirements were abolished.

4.0 MONEY MARKET DEVELOPMENTS

Developments in the money market in the first quarter and early part of the second quarter have generally been shaped by rising inflation and some shift in preferences towards short-dated securities. There was significant realignment of interest rates in line with the last Monetary Policy Committee decision. Deposit money banks rates have followed the market as well albeit at a slower pace.

4.1 Government Securities Market

4.1.1 Maturity Structure of Outstanding Government Securities

At end-Q1 2008, the share of the short-dated securities² in the outstanding stock of government securities increased marginally by 1.5 per cent to 22 per cent after declining progressively from a high of 56.2 per cent in December 2005 to 33.7 per cent in December 2006 and further to 20.5 per cent in December 2007. The share of the 1-year note and 3-year fixed bond similarly recorded some marginal increases. However, shares of the 2-year fixed and 5-year bond which had made significant gains earlier remained

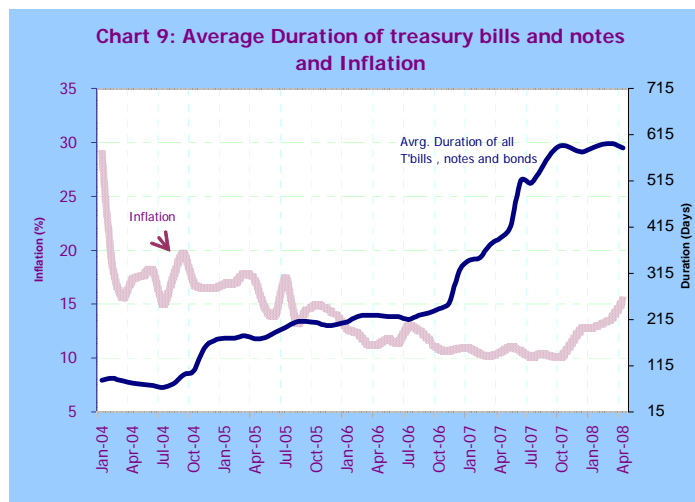
² Including the 91-days and 182-days treasury bills.

unchanged in the year while the shares of the 2-year & 3-year floating securities (which have been discontinued) continued to decline.

Security	2005		2006		2007				2008			
	Dec Gh¢mn	Share (%)	Dec Gh¢mn	Share (%)	Apr Gh¢mn	Share (%)	Dec Gh¢mn	Share (%)	Mar Gh¢mn	Share (%)	Apr Gh¢mn	Share (%)
91 Days*	757	43	451	22	422	17	429	15	490	17	455	16
182 Days	233	13	248	12	232	9	162	6	158	5	160	6
1-Year	225	13	515	25	605	25	632	22	533	18	564	20
GGILBs	23	1	1	0	-	0	-	0	-	0	-	0
2year Floatig	265	15	139	7	75	3	41	1	40	1	40	1
2year Fixed	221	13	478	23	644	26	702	24	686	24	683	24
3year Floatig	13	1	13	1	13	1	2	0	0	0	0	0
3year Fixed	27	2	152	7	397	16	646	22	711	25	711	25
5-year Bond	-	0	76	4	76	3	269	9	269	9	269	9
Total	1,764	100	2,073	100	2,463	100	2,883	100	2,887	100	2,881	100

4.1.2 Average Maturity of the Stock of Government Securities

With the movements in the outstanding stock of government securities the average maturity of the stock of government securities at end-April 2008 was 587 days, compared with a high of 594 days at end-February 2008 and 578 days at end-2007.



4.1.3 Holding Structure of Outstanding Government Securities

The holding profile of government securities at the end-April 2008 remained broadly unchanged at the end-2007 levels. DMBs share of 43 per cent of the securities



remains the dominant, though the share has seen significant downward trend in response to the easing and subsequent abolition of the secondary reserve requirements. The Bank of Ghana however recorded some marginal increase of a percentage point. The share of individuals (including foreign investors) rose by 2 per cent to 31 per cent in the year through April 2008.

Holder	2005		2006		2007				2008			
	Dec Gh¢mn	Share (%)	Dec Gh¢mn	Share (%)	Apr Gh¢mn	Share (%)	Dec Gh¢mn	Share (%)	Mar Gh¢mn	Share (%)	Apr Gh¢mn	Share (%)
Banking System	1054	60	1172	57	1365	55	1519	53	1546	54	1537	53
BOG	57	3	100	5	126	5	261	9	293	10	288	10
DMBs	997	57	1072	52	1239	50	1258	44	1253	43	1249	43
Insur. Cos	57	3	181	9	257	10	234	8	240	8	230	8
Firms & Institutions	208	12	197	10	292	12	282	10	223	8	226	8
Individuals	444	25	522	25	549	22	849	29	878	30	888	31
Total	1,764	100	2,073	100	2,463	100	2,883	100	2,887	100	2,881	100

4.2 Interest Rates

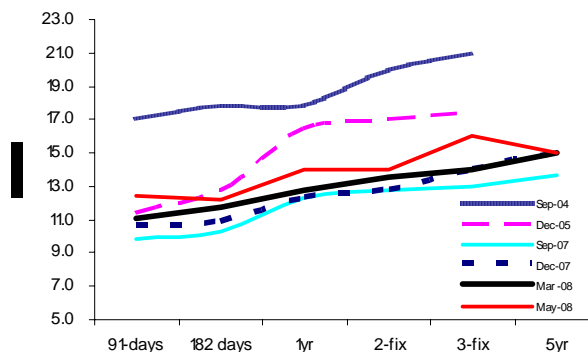
LAST MPC POLICY DECISION

After assessing the balance of risks in the outlook, the MPC on May 19, 2008 announced its decision to increase the Bank of Ghana Prime Rate by 175 basis points to 16 per cent, the second consecutive rate hike (for a cumulative increase of 250 basis points in the year).

4.2.1 The Yield Curves:

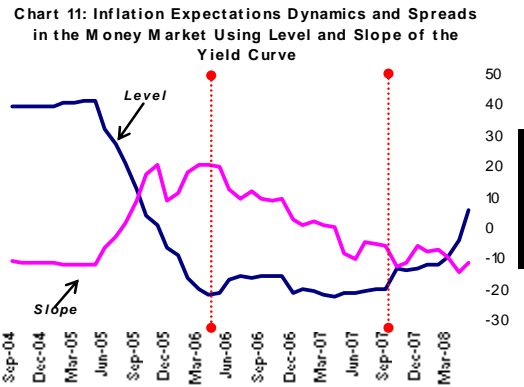
Interest rates on the auction market (beginning with the short term rates, and later extending across all spectrum of maturities) generally firmed in line with the MPC's rate hikes. In the year through mid May, the 91-day and 182-day Treasury bill rates firmed-up by 234 and 282 basis points to 12.96 per cent and 13.62 per cent respectively. The 1-year-note as well as 2-year fixed

Chart 10: The Yield Curves (September 2004 through May 2008)



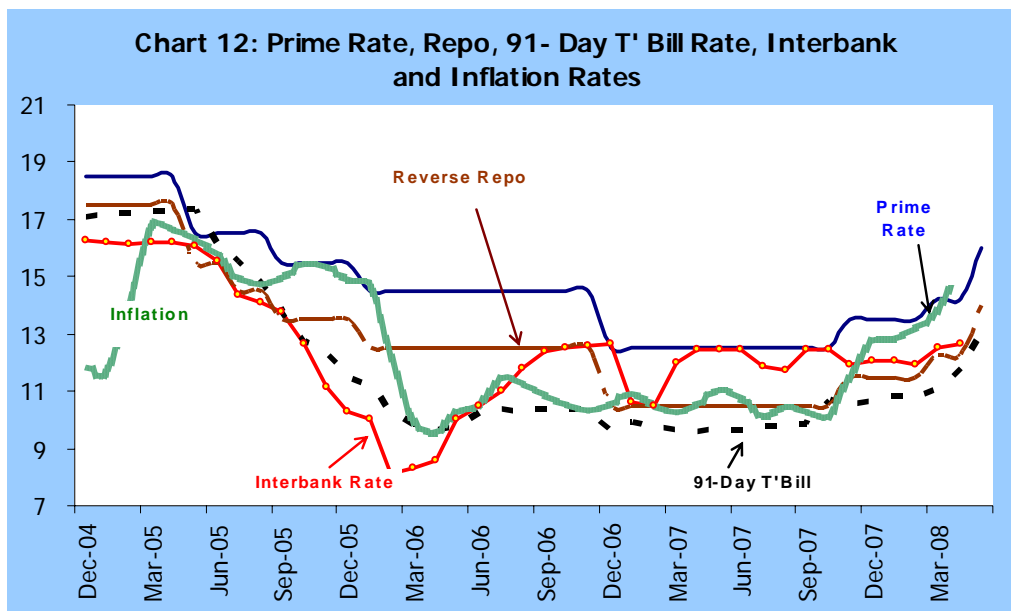
rate note similarly inched up by 170 and 120 basis points respectively to 14.0 per cent each. The rate on the 3-year fixed bond rose to 16.0 per cent from 14 per cent over the same period.

Inflation expectations derived from the rate movements in the auction market showed that expectations have continued to firm-up through Q1 2008 and early May, though still significantly lower than earlier periods. The risk premium (measured by the slope factor) however showed some broadly continued easing trend, with an up-tick in mid May 2008, reflecting the sharp rise of 210 basis points in the 3-year fixed rate bond (Chart 11).



4.2.2 The BOG Prime Rate, Repo, Interbank, 91-day t'bill rate and the Inflation rate

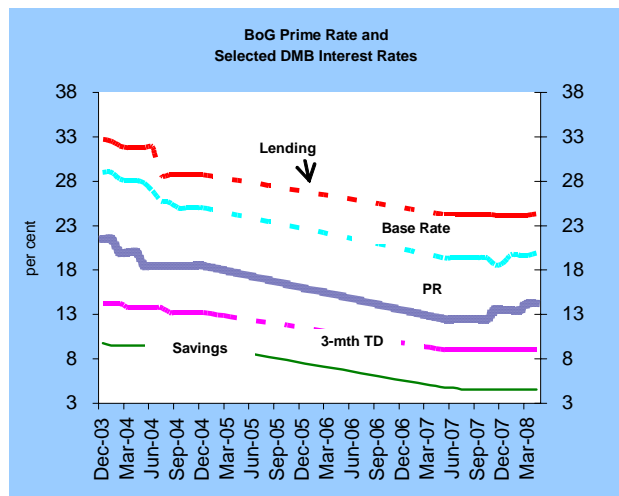
In line with the MPC rate decisions, the interbank rate firmed up by 61 basis points to 12.65 per cent in early May, remaining within the policy rate corridor, but close to the lower band, reflecting the strong liquidity conditions on the overnight market.





4.2.3 DMBs interest rates:

In line with the MPC rate decision, average base rate quotations of the banks were revised marginally upward by 26 basis points in April on top of the 92 basis points revision in Q1 2008 in the range 18.0 – 21.45 per cent. Average lending rates were similarly revised upward marginally by 19 basis points in April 2008 following the MPC's rate decision within the range 14.8 – 33.9 per cent.



5.0 STOCK MARKET DEVELOPMENTS

5.1 Global Markets:

Global stock markets recovered some lost ground in April amid some signs that the worst of the credit crisis may have occurred. After the difficult first quarter, stocks managed a strong rally in April as investors sought attractive valuations in an

1. Market Performance			
EQUITIES	4/30/08 LEVEL	APRIL TOTAL RETURN	YTD TOTAL RETURN
Dow Jones Industrials	12,820.1	4.7	-2.6
S&P 500	1,385.6	4.9	-5.0
NASDAQ	2,412.8	5.9	-9.0
Russell 2000	716.2	4.2	-6.1
S&P MidCap	838.8	7.7	-1.8
Russell 1000 Growth	576.3	5.2	-5.5
Russell 1000 Value	755.5	4.9	-4.3
MSCI EAFE	2,139.5	5.4	-4.0
MSCI (Emerging Markets)	1,191.5	8.1	-3.8

Source: Factset, Bloomberg, Lehman Brothers, Evergreen Investments

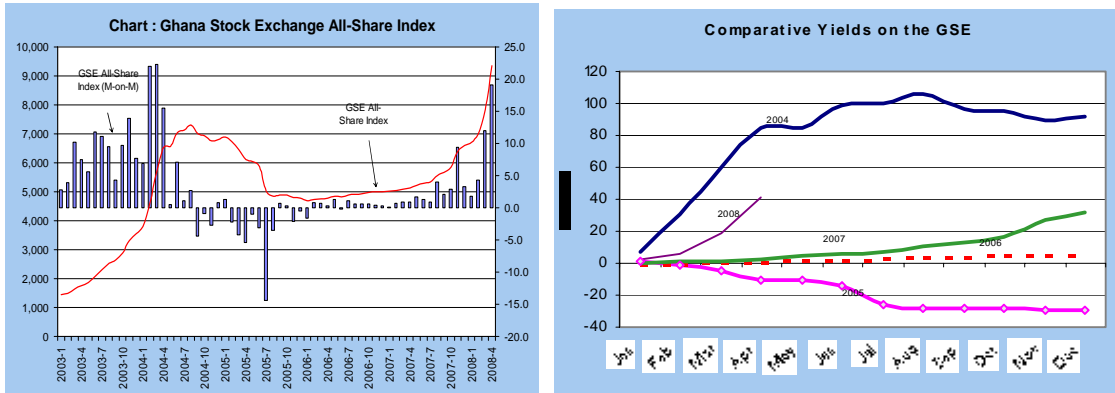
economic environment that turned out not to be as bad as initially feared. Stocks were up across the board last month, with most of the major equity market indexes showing gains for April. Emerging markets led the way, followed by domestic mid-cap stocks and the Nasdaq Composite.

5.2 The Ghana Stock Exchange

The Ghana stock exchange remained bullish in the first four months of 2008, closing with a return of 41.67 per cent (or 29.88 per cent in dollar terms), compared with a marginal gain of 2.69 per cent (or 1.0 per cent in dollar terms) over the same period in 2007. The performance of the index in the review period has followed renewed interest



in the bourse with strong results released by most of the listed companies and supported strongly by stocks in the Banking and Finance, Distribution and the Food and Beverage as well as agricultural stocks.



6.0 CONCLUSION

- Available provisional data on the key monetary aggregates for Q1 through early Q2 2008 show:
 - Continued strong growth, underpinned mainly by deposit-funded private sector credit growth, with a broad-based sectoral as well as user distribution. There is an increased significance of the shares of the services sector and households in the flow of credit to the private sector.
- Developments in the money market in the first quarter and early part of the second quarter have been shaped by rising inflation and some shift in preferences towards short-dated securities. Interest rates on the auction market saw significant realignment in line with the last Monetary Policy Committee decision. Inflation expectations significantly eased downward over past few years, bottoming in Q3 2007 but have generally risen through Q2 2008.
- The GSE ended the first four months of 2008 with significant returns (both in local currency and in dollar terms) as most of the companies report impressive financial results. This has occurred against the back drop of severe turbulence in global markets with recession fears in the world's largest economy.