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Monetary Policy Report

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WORLD ECONOMIC OUTLOOK & EXTERNAL SECTOR DEVELOPMENTS

A. Global Economic Outlook and Monetary Policy Stance in Key Economies

4.1 Global GDP growth

Despite the negativities the global economy has faced lately the International Monetary Fund (IMF) on 18 July raised its 2008 growth forecasts for most major economies, and stressed its view of a significantly slower pace in global growth during the second half of this year (2008:H2) before a gradual recovery starts to take place in 2009.

In an update of its world economic outlook, it stated, “The global economy is in a tough spot - caught between sharply slowing demand in many advanced economies and rising inflation everywhere, notably in emerging and developing economies (EMEs)”.

As a result, the IMF raised its 2008 global growth forecast to 4.1 percent from 3.7 percent and its 2009 forecast to 3.9 percent from 3.8 percent. This follows growth of 5.0 percent in 2007.

However, this masks the extent of the expected slowdown in 2008:H2. Year-on-year growth is seen slowing to 3.0 percent in the 2008:Q4 from 4.8 percent 2007:Q4.

The Global Economy - IMF Forecasts, 2008 & 2009

	Real GDP Growth (%)			
	Earlier (Apr-08)		Revised (Jul-08)	
	2008	2009	2008	2009
World	3.7	3.8	4.1	3.9
US	0.5	0.6	1.3	0.8
Euro	1.4	1.2	1.7	1.2
Japan	1.4	1.5	1.5	1.5
UK	1.6	1.6	1.8	1.7
China	9.3	9.5	9.7	9.8
India	7.9	8.0	8.0	8.0

Expansions in EMEs are also expected to lose further steam, with growth in these countries projected to ease to around 7.0 percent in 2008-09 from 8.0 percent in 2007.

According to the Asian Development Bank (ADB), food and oil inflation and volatility in financial markets will cut growth in Asia to 7.6 percent this year from 9.0 percent in 2007. Economic growth in China is expected to slow to 9.9 percent in 2008 and 9.7 percent in 2009, from a growth rate of 11.9 percent in 2007. The slowdown in China is seen as being due to a gradual appreciation of the yuan, monetary policy tightening and weakening external demand.

Global inflation

At the same time as the growth slowdown, the IMF noted that rising energy and commodity prices have boosted inflationary pressure, particularly in EMEs. In advanced economies, inflation pressures are likely to be countered by slowing demand and, with commodity prices projected to stabilize, the expected increase in inflation for 2008 is forecast to be reversed in 2009.

In emerging and developing countries, inflationary pressures are mounting faster, fueled by soaring commodity prices, above-trend growth, and accommodative macroeconomic policies. Hence, inflation forecasts for these economies have been raised by more than 1.5 percentage points in both 2008 and 2009, to 9.1 percent and 7.4 percent, respectively, and the moderation in inflation in 2009 will depend on more assertive tightening of monetary conditions.

The global headline inflation currently prints above 4.5 percent.

Policy prescription

IMF's top priority for policymakers is to head off rising inflationary pressure while keeping sight of risks to growth.

The rise in inflation in the advanced economies has been less sharp and is expected to be countered in the medium term by slowing demand, and so the case for monetary tightening is less compelling, given that inflation expectations and labour costs are projected to remain well anchored while growth weakens noticeably, but inflationary pressures need to be monitored carefully.

In many emerging economies, particularly those that continue to operate above trend growth, tighter monetary policy and greater fiscal restraint are required, combined, in some cases, with more flexible exchange rate management, in order to reverse the recent build-up in inflation.

4.2 Survey of Monetary Policy stance

The transatlantic monetary policy gap – different responses by Fed and the ECB to the double threat of economic slow-down and rising consumer price inflation - appears to have narrowed after the last policy meeting of the Fed.

The Fed has now indicated less concern about growth risks and more about inflation and inflation expectations; and now appears to be tightening biased. Eventually, the divergence is expected to diminish when weaker economic growth reduces inflation fears at the ECB.

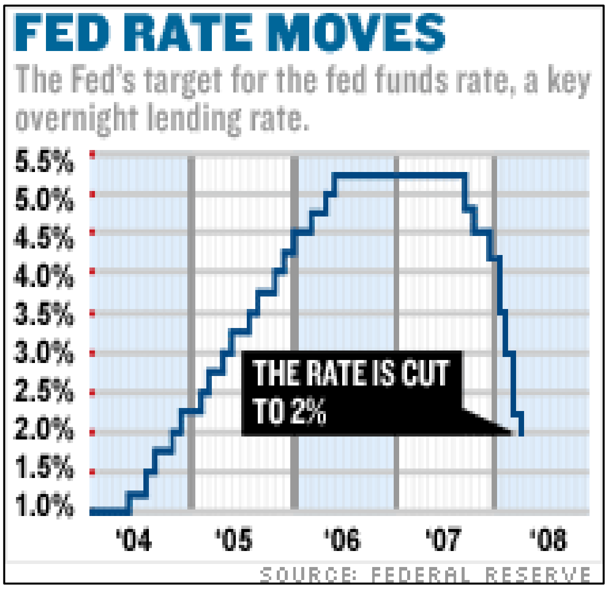
After steady decline from end-2007, the average rate of the five central banks that set policy rates for G7 increased by 5 bps in from June to 2.95 percent in July.

	G7 AVG	FED	BOJ	ECB	BOE	BOC	SARB	CBT	BOG
End-2004	2.30	2.25	0.00	2.00	4.75	2.50	7.50	18.00	18.50
End-2005	2.85	4.25	0.00	2.25	4.50	3.25	7.00	13.50	15.50
End-2006	3.65	5.25	0.25	3.50	5.00	4.25	9.00	17.50	12.50
End-2007	3.70	4.25	0.50	4.00	5.50	4.25	11.00	15.75	13.50
Jan-08	3.40	3.00	0.50	4.00	5.50	4.00	11.00	15.75	13.50
Feb-08	3.35	"	"	"	5.25	"	"	15.25	"
Mar-08	3.00	2.25	"	"	"	3.50	"	"	14.25
Apr-08	2.90	2.00	"	"	5.00	3.00	11.50	"	"
May-08	2.90	"	"	"	"	"	"	15.75	16.00
Jun-08	2.90	"	"	"	"	"	12.00	16.25	"
Jul-08	2.95	"	"	4.25	"	"	"	"	17.00

FED - US Federal Reserve; BOJ - Bank of Japan; ECB - European Central Bank
BOE - Bank of England; BOC - Bank of Canada; SARB - South African Reserve Bank
CBT - Central Bank of Turkey; BOG - Bank of Ghana

4.2.1 United States

FOMC kept rates unchanged at 2.0 percent at its 25 June meeting as expected. It however made changes to the accompanying statement and explicitly indicated less concern about growth risks and more about inflation and inflation expectations.



While the Fed does not have an explicit inflation target, inflation above 2.0 percent is normally enough to set off the danger signals. Headline Inflation was 4.2 percent in May with average for the first five months reading 4.08 percent. The headline printed 5.0 percent in June.

The statement expanded on earlier stated concern about a weak dollar due to its impact on inflation. With lower rates hurting the dollar, authorities are worried that the recent rate hike by the ECB, which has also sounded hawkish, could drag the greenback even lower.

<u>Outlook</u>:

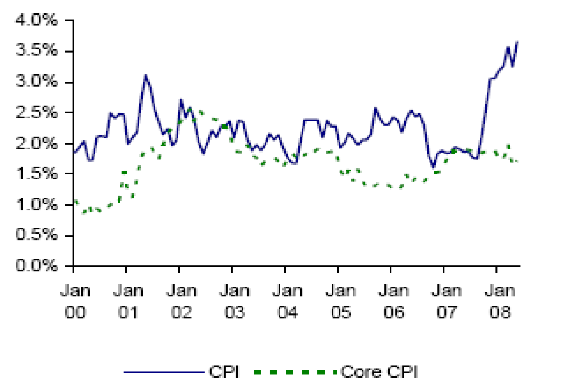
The market thus expects the FOMC to keep rates unchanged in August, but hike at the September meeting.

4.2.2 Euro zone

At its 03 July meeting, the ECB, as expected, raised its key lending rate by 25bps to 4.25 percent after more than a year of unchanged Euro-zone interest rates. But this move looks unlikely to be a one-off tightening, but rather the beginning of a sustained rise in rates though staggered, for the following:

- Inflation jumped to 4.0 percent in June and is unlikely to be the peak. Pipeline food and energy price increases point to CPI averaging over 4.0 percent in 2008:Q3.
- Also, the ECB will be alert to the risk of the real repo rate moving negative for any prolonged period.
- Further, money supply growth remains far above the ECB's 4.5 percent reference value for the 3-month moving average, with M3 rising by 10.4 percent in March-May.

Chart 1: Euro-zone core inflation still benign



Source: Datastream

Chart 2: Faster wages a headache for the ECB

Source: Datastream

The two key inflation concerns for the ECB are expectations and wages. European Commission surveys show that companies and households expect prices to rise further over the next 12 months, and the ECB fears that wage behaviour is being influenced by these heightened expectations.

4.2.3 Japan

BOJ stated in a quarterly report on 07 July that the economy has worsened in eight of the country's nine regions since April as costlier energy and raw materials slowed the expansion.

Following up on this, BOJ kept its policy rate on hold on 15 July at 0.5 percent - the same level since February 2007 – and at the same time lowered its economic growth forecast for the year to March 2009 to 1.2 percent from 1.5 percent.

Sentiment among Japan's households, whose outlays account for more than half of the economy, is at a six-year low as they struggle with the steepest inflation in a decade.

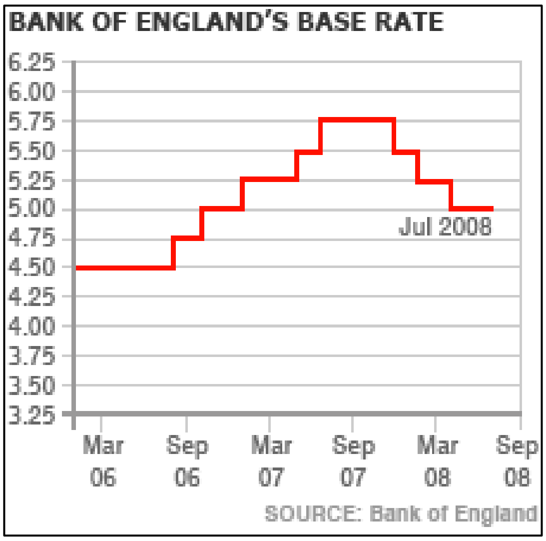
		2007		2008				
		Q3	Q4	Q1	February	March	April	May
Nationwide								
Overall	MoM%, sa	0.2	0.4	0.3	0.1	0.2	-0.3	0.6
	YoY%	-0.2	0.5	0.9	1.0	1.2	0.8	1.3
Excl. fresh food	MoM%, sa	0.1	0.4	0.5	0.1	0.1	-0.3	0.7
	YoY%	-0.1	0.5	1.0	1.0	1.2	0.9	1.5

Headline inflation rose to 0.6 percent in May (2.0 percent in June), while core consumer prices - which exclude fresh food - rose 1.5 percent in May (1.9 percent in June), the fastest pace since 1998. In addition, the yen's 4.0 percent gain against the dollar this year is slowing the economy as a stronger currency erodes the value of profits when repatriated.

Analysts say the bank won't be able to raise rates for a while, probably not for another year.

4.2.4 United Kingdom

At its policy meeting on 10 July, the BoE MPC balanced growing evidence of an economic slowdown against the problem of rising inflation and kept on hold the repo rate at 5.0 percent. The decision had been widely expected, despite calls from business groups to cut rates amid growing concerns about the economic slowdown.



May's inflation surprised on the upside to hit 3.3 percent to breach the upper limit set by the government. In his explanatory letter, Governor King forecast that inflation could reach as high as 4.0 percent this year but emphasized that the MPC targeted inflation over the medium-term, and had to stay alert to downside growth risks which could pull inflation far below target in two years' time. UK's inflation in June was 3.8 percent.

At its meeting, the Committee expressed concerns over economic activity and noted the great uncertainty surrounding the Bank's perception of the slowdown. But it is also concerned that the rise in headline will pull wages higher and become embedded in the economy.

The BoE sees a period of below-trend growth as necessary to ensure that the long-term path of inflation returns to the 2.0 percent target. At 5.0 percent currently, rates are at the tight end of a neutral range. BoE may stay on hold in August and rest of the year.3

4.2.5 Hungary

CPI growth slowed to 6.7 percent in June from 7.0 percent in May, which was lower than market expectations due to sharp drop in seasonal non-processed food prices.

Food prices are likely to continue to decline during the summer months due to strong harvest. This, however, is unlikely to offset energy price hikes in July-August.

Based on announced household energy price hikes, CPI growth is expected to increase in the next two months and peak at 6.9 percent in August.

Disinflation may accelerate from September, as the effects of the food price shocks from 2007 fall out of the annual index.

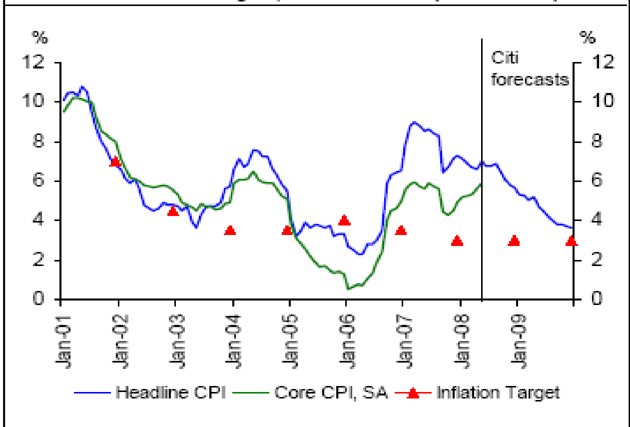
Hungary - CPI Actual and Forecast, June 2008

June 2008	Actual	Market Forecast	Previous Release
CPI (%, y-o-y)	6.70	6.90	7.00
Core CPI (%, y-o-y)	5.80	-	5.90
Core CPI (%, m/m)	0.40	-	0.52

Source: Hungarian Statistical Office, Reuters consensus

Based on the forint's appreciation and the correction in food prices, the market expects end-year inflation to be 5.6 percent and 3.6 percent by December 2009. Forint's appreciation is likely to offset energy price hikes in the NBH's CPI projection.

Figure 2. Hungary — Headline Inflation and Seasonally Adjusted Core CPI vs Inflation Targets, Dec 01-Dec 09 (Percent YoY)



Source: Hungarian Central Statistical Office and Citi forecasts.

Consequently, the MPC is expected to adopt a wait-and-see stance in the coming months to assess the effects of the forint's appreciation on the CPI.

If the forint stabilises at its current level and additional supply-side shocks do not emerge, the NBH may keep rates unchanged for the rest of the year.

With upside risks to CPI outlook still elevated due to high wage trends, the MPC is likely to keep its hawkish bias and only cut rates in 2009:Q2 when there is evidence of wage moderation.

4.2.6 Chile

The Board of CBC raised the policy rate by 50bps to 7.25 percent on 10 July. Given the deteriorated inflationary outlook, the Bank said the increase was necessary to ensure convergence of inflation toward 3.0 percent over the policy horizon.

June's inflation of 9.5 percent (up from 8.9 percent in May) significantly exceeded forecasts, due to new price hikes for energy and foodstuffs. Core inflation measures and various indicators for inflation expectations have risen, suggesting greater than foreseen inflationary propagation.

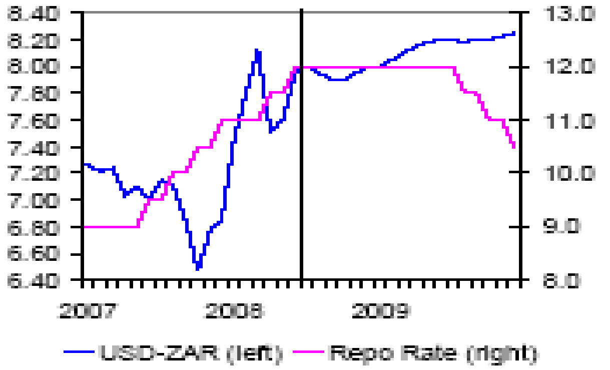
The future path of the policy rate will depend on incoming data and its implications for projected inflation, though, in the most likely scenario, further adjustments will be necessary in order to ensure convergence of inflation to the target.

4.2.7 South Africa

GDP growth slowed to 2.1 percent q/q annualized in 2008:Q1 due to substantial power-induced contraction in mining output (-22.0 percent).

CPIX inflation continues to surge, and is expected to reach 12.5 percent in Q3. If oil prices continue to rise, inflation, inflation expectations and wage demands will follow suit.

The Repo Rate and the Rand, Jan 07-Dec 09 forecast



Sources: Ecowin and Citi forecasts.

<u>Outlook</u>:
Increases in international oil price, and currency risk associated with South Africa's gaping current account deficit (9.0 percent of GDP in Q1), continue to pose a significant upside risk to the inflation outlook.

This, together with broad-based inflationary pressures, electricity tariff hikes and rising inflation expectations, leads to prediction that MPC will hike by 50bp in August; followed by a relatively long period of rates remaining at 12.5 percent.

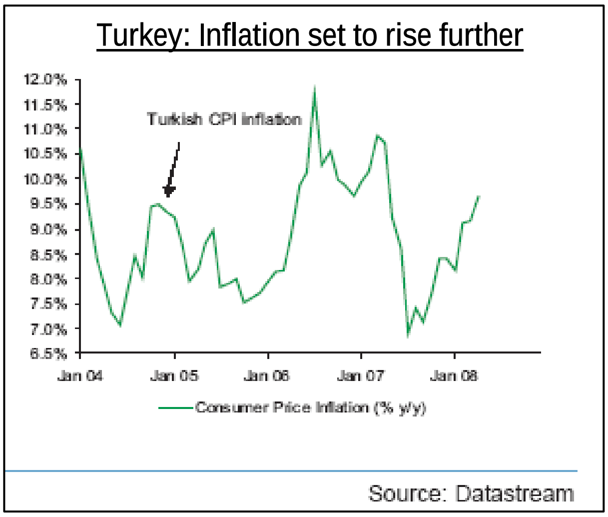
4.2.8 Turkey

Against a backdrop of rising inflation (10.7 percent in May 2008 compared with low of 6.9 percent in July 2007) and considerably higher near-term inflation forecasts, the CBT announced on 03 June a raise of its inflation target for 2009 to 7.5 percent from 4.0 percent. The targets for 2010 and 2011 were also increased to 6.5 percent and 5.5 percent respectively.

<u>Policy implications</u>:
- A less ambitious disinflation path will reduce the magnitude of the required monetary tightening going forward.
- A higher inflation target – holding all else constant – is likely to raise the inflation risk premium, which may in turn exert upward pressure on longer-term interest rates.

- It is likely to be deemed as constituting a less aggressive stance in the fight against inflation, which may not bode well for bolstering the CBT's inflation fighting credentials.

In its first decision after revision of target, the CBT, in line with the consensus, raised its policy rate by 50n bps to 16.25 percent on 17 June.



Recent survey results show that forward-looking inflation expectations, 12- and 24-months ahead, continue to deteriorate to 8.7 percent and 7.3 percent respectively.

Going forward, to buttress credibility calls for a more aggressive tightening phase. But the CBT is not very likely to bring the policy rate significantly above 17 percent by year-end in view of its adoption of a less ambitious disinflation path.

4.2.9 Nigeria

The CBN's decision on 02 June to raise its benchmark MPR by 25 bps to 10.25 percent, while also increasing the cash reserve requirement for DMBs from 3 percent to 4 percent (with effect from 09 June), was widely expected in light of building inflationary pressures.

CBN noted that the inflation rate had picked up again in April to 8.2 percent from 7.8 percent in March, driven by rising food prices (Inflation in May was 9.7 percent).

Moreover, it expressed concerns about the possibility of inflation rising sharply in the coming months due to:
- Expected increase in fiscal spending in 2008:H2,
- Rapid growth in the money supply, M2, (62.2 percent y/y in March),
- Rising international food prices.

Outlook:
While CBN appears to be keen to boost lending to the private sector, it is also aware that the banks may not be in a position to fully manage the risks associated with such a rapid growth. The increase in MPR and cash reserve requirement is expected to address this.

As there is a limit to how high CBN would like to see interest rates rise, as this has domestic political implications, an option that is being considered is to allow further naira appreciation which has the added benefit of helping limit imported inflation, notably via rice and wheat prices.

The MPR is the base lending rate in the country and it is the rate CBN lends to the banks. CBN raised the MPR from 9.5 percent to 10.0 percent in April this year.

B. Commodity and Foreign Exchange Markets

4.3 Commodities outlook

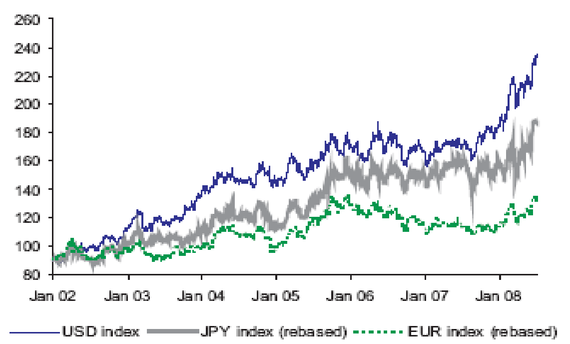
Soaring crude prices continue to push the commodity indices higher. The key indices are up 12-16 percent m/m (depending on exposure to energy) and 28-46 percent year-to-date (ytd). USD weakness has been a factor from time to time, but prices are up 10.0 percent in EUR terms as well. There have been knock-on effects on gold and some agricultural markets through the potential impact from bio-fuels.

Table 1: Global commodity index performance

	latest 3-Jul	m/m%	change ytd%	y/y%
Dow Jones AIG	238	11.7	28.6	39.8
S&P Goldman Sachs	890	16.1	45.9	80.6
Reuters/Jeffries CRB	472	13.3	31.7	49.2
DJ-AIG EUR	208	9.8	19.6	21.1
DJ-AIG JPY	189	13.4	22.8	21.9

Source: Bloomberg

Chart 1: Dow Jones-AIG commodity index



Sources: Dow Jones, SCB Global Research

Overview of the commodities market		Mkt Close	Change (%)			Period Average						
						2006	2007	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009
		(01 Jul)	m/m	ytd	y/y	a	a	a	a	f	f	f
Crude Oil												
Brent (nr future)	*USD/bbl*	139.73	9.6	34.3	83.3	66.10	73.00	96.36	123.20	139.00	129.00	119.00
Precious metals												
Gold (spot)	*USD/oz*	913.19	-0.3	6.9	33.4	605.00	697.00	925.16	898.48	925.00	975.00	1,050.00
Softs												
Cocoa (LIFFE)	*USD/tonne*	2,958	-1.1	41.5	44.0	1,581	1,882	2,530	2,975	2,600	2,650	2,738

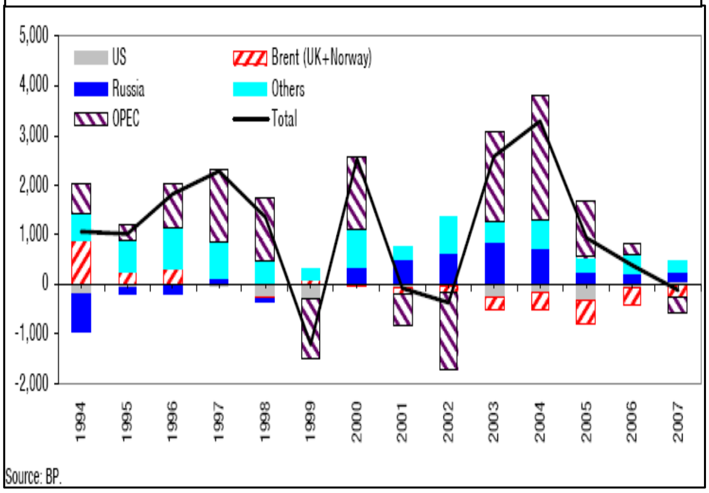
A rebound in the USD is widely forecast in 2009:H1, which could provide an environment for an easing in crude oil prices to reflect softer demand growth. Consequently, commodity prices are expected to give up some gains later in 2008 and in 2009 with the slowing of global growth.

If global growth were to slow more than expected - which would involve a large decline in growth in emerging markets – commodity prices could fall substantially, as they have in past global downturns.

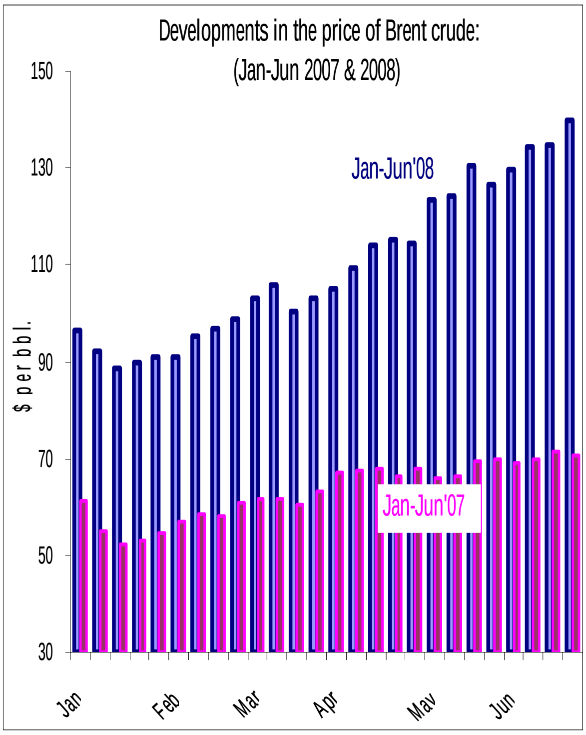
4.3.1 Oil

Slowdown in global crude oil production reflects the easing oil production growth from the Gulf Cooperation Council states (GCC). The (right) chart shows that the annual increase in global production has been falling since 2005. It also shows that, while OPEC has been successful in stabilizing oil prices (with Saudi Arabia being the swing producer), its ability to do so has faded significantly in recent years.

Crude oil: Annual change in global prodn ('000 blls)



As the fastest growing region in the world, and with only oil to meet its energy needs, GCC's domestic demand growth is now eating into the region's exportable surplus. Thus, instead of oil prices driving GCC growth, it is argued that GCC growth is now a significant driver of oil prices.



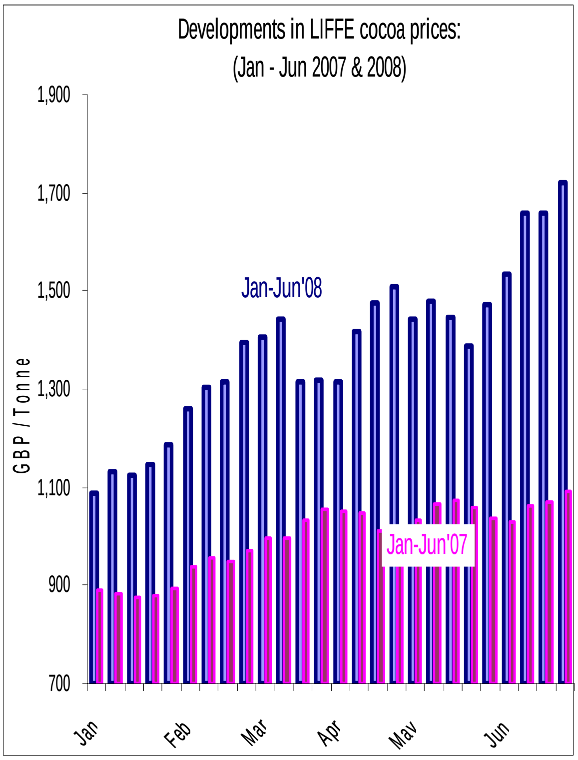
On July 16, oil prices began to tumble. They shed nearly $4 on 23 July, tumbling below $125 a barrel for the first time since early June on growing fears that high prices and the weak US economy were destroying demand. For that week alone, oil prices fell 2.3 percent.

Before then, crude oil hit a fresh record high of more than $147 per barrel over a possible disruption in already tight global oil supplies - growing tension between Israel and Iran (Opec's second-biggest producer).

The average weekly price per barrel of the benchmark Brent crude closed June 2008 at $139.73. For the month of June alone, the benchmark price climbed up 10.7 percent, which represented a firming of 48.5 percent from the end-2007 level and an increase of 96.35 percent in y/y terms.

4.3.2 Cocoa

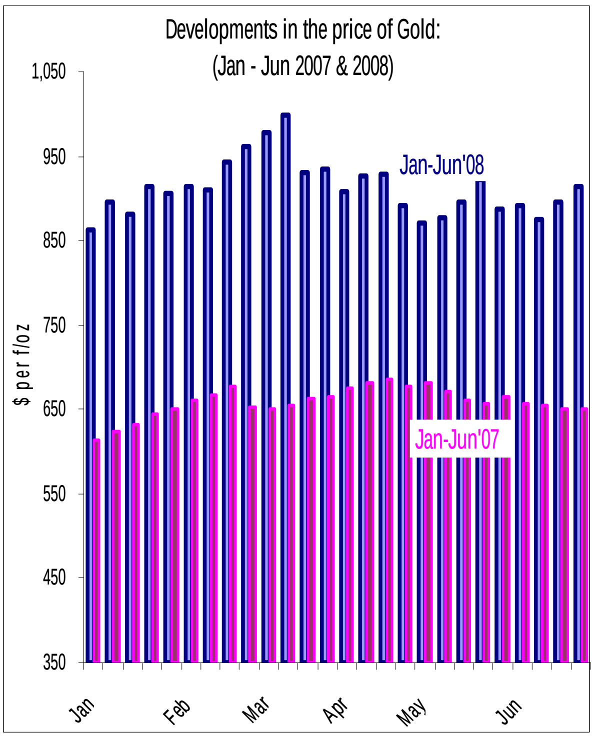
Since 12 June, cocoa futures have set successive 28-year peaks, partly on smaller-than-expected mid-season arrivals in Côte d'Ivoire and Ghana. Although the market is expected to remain tight through to the start of the W/African main season (in October), the current rally will likely moderate on overbought conditions.



The LIFFE wkly average price in the year-opening was £1,055.00 per metric tonne. Y-t-d (end-June), the average weekly price is £1,382.58, compared with the average of £993.59 over the same period in 2007. The end-June price represented a firming of 63.1 percent from the end-2007 price and 57.5 percent in year-on-year terms.

4.3.3 Gold

The price of gold rose for a fourth straight week, and according to a Bloomberg survey may continue near-term on speculation that record energy costs and slumping equities will spark demand for a haven.

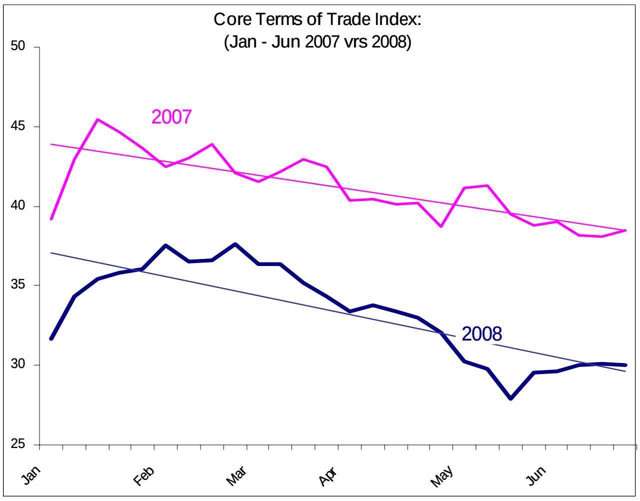


Gold is "supported by concerns about financial mkt weakness, inflation and the ongoing effects of the credit crunch." Some investors buy gold as a store of value when there's turmoil in financial markets. Gold may also gain as a global slowdown boosts demand for a haven. If the economy stalls, then gold should drop if it's considered a commodity and rally if people want a safe asset.

Y-t-d (end-June), price of gold has rallied 9.9 percent to $913.19 per ounce, which represents a y/y increase of 40.3 percent.

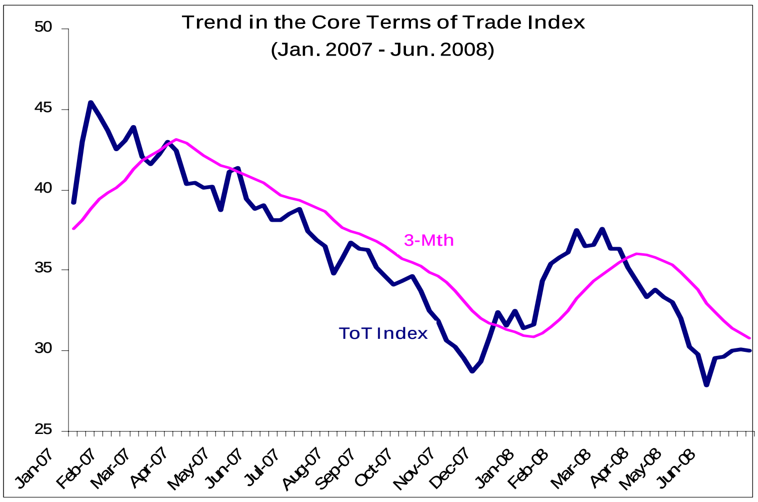
4.3.4 Core terms of trade (ToT) index

A core weekly terms of trade index (2002: wk1=100) is constructed for Ghana based on the developments in the prices of the three core items that dominate Ghana's merchandise trade. Imports are represented by crude oil, while gold and cocoa represent exports. But gold and cocoa are weighted to reflect the proportions of foreign exchange inflows attributable to the two commodities.



The fitted trend lines show that on the average the terms of trade deteriorated slightly more in trend in 2008:H1 than over the same period in 2007. In terms of volatility, comparison of the standard deviations (1.5 and 1.8 for January – June 2007 and 2008 respectively) indicates that the index shows greater volatility in 2008:H1 than in the corresponding period in 2007.

In the chart (below), the index is plotted from January 2007 to June 2008 against its 12-week (or quarterly) moving average. From December 2007, the index rose above its quarterly trend to reflect improvement in the terms of trade that resulted from the combined increase in the prices of both cocoa and gold which together more than offset the rally in crude oil.



Over the period January-February 2008, the terms of trade improved on the average by 5.2 points on the index. It however saw deterioration in the months of March and April. In the second week of March, the index fell below its quarterly trend to reflect the strong increase in the price of crude oil which was accompanied by decline in cocoa price. The index deteriorated further in May, but corrected in June on the back of 16.8 percent firming in the price of cocoa for that month, which more than offset the 10.6 percent gain in the price of crude oil. The value of the index at the end of June was 30.0, which represents a deterioration of 8.8 points in year-on-year terms and 79 bps below its quarterly trend value.

4.4 Currency markets

Of the selected currencies (in table below), the Brazilian **real** came out strongest against the US dollar in January – June 2008 with a cumulative appreciation of 9.8 percent against the greenback.

High interest rate and expectation for higher interest rates support the current flow of investors' cash in Brazil's favour. The SELIC (the basic interest rate) was recently (23 July) raised to 13.00 percent from 12.25 percent and the market expects the Monetary Policy Committee of the Central Bank (known as the COPOM) to raise it again by 75 bps at its next meeting on 10 September. There has been a big appetite from foreign investors for all kinds of Brazilian debt and fixed income investments.

MOVEMENTS OF SELECTED CURRENCIES AGAINST THE US DOLLAR (Percent)

	Advanced Economies			Emerging Market Economies									
	Euro	Pound	Yen	Rupee	Won	Yuan	Real	Dong	Sole	Ruble	Rand	Peso	Cedi
	Euro zone	UK	Japan	India	S. Korea	China	Brazil	Vietnam	Peru	Russia	S. Africa	Chile	Ghana
2001	0.9	1.5	13.2	2.4	6.1	0.0	19.8	4.2	-2.4	8.6	51.6	15.5	3.7
2002	-15.8	-9.4	-4.0	0.5	-6.1	0.0	45.2	2.2	2.3	5.4	-22.9	5.7	14.5
2003	-15.4	-9.6	-12.1	-5.4	-1.0	-0.0	-20.3	1.6	-1.2	-7.9	-27.1	-15.3	4.8
2004	-8.3	-9.3	-3.4	-3.6	-12.3	-0.0	-6.8	0.8	-5.5	-5.2	-11.8	-4.0	2.2
2005	12.3	10.1	13.4	3.9	-2.6	-2.5	-17.2	0.8	4.2	3.2	10.6	-11.0	0.9
2006	-10.6	-11.4	-0.9	-2.3	-9.9	-3.2	-5.5	1.1	-6.5	-9.1	11.4	2.8	1.1
2007	-9.6	-2.6	-3.9	-12.1	0.7	-5.9	-18.0	-0.3	-7.2	-6.7	-2.5	-5.5	5.0
Monthly Changes (Percent)													
2007													
Jan	1.7	0.2	2.8	-0.7	1.3	-0.4	-0.5	-0.1	-0.4	0.8	2.2	2.6	0.1
Feb	-0.7	0.0	0.0	-0.4	0.0	-0.5	-2.0	-0.5	-0.1	-0.7	-0.2	0.2	0.1
Mar	-1.2	0.6	-2.7	-0.5	0.7	-0.2	-0.3	0.4	-0.2	-0.8	2.4	-0.7	0.2
Apr	-2.0	-2.1	1.4	-4.1	-1.3	-0.2	-2.8	0.1	-0.2	-1.1	-3.4	-1.3	0.0
May	0.0	0.2	1.6	-3.4	-0.4	-0.6	-2.3	0.0	-0.3	-0.0	-1.2	-1.8	-0.0
Jun	0.7	-0.1	1.6	0.0	0.1	-0.6	-2.6	0.4	0.1	0.3	1.9	0.9	0.1
Cum. Chg (%)	-1.5	-1.2	4.7	-9.1	0.4	-2.5	-10.5	0.3	-1.1	-1.4	1.8	-0.1	0.6
2008													
Jan	-1.0	2.5	-4.1	-0.2	1.3	-1.8	-0.7	-0.2	-1.1	-0.4	2.5	-4.1	0.5
Feb	-0.3	0.3	-0.6	1.0	0.1	-1.0	-2.6	-0.4	-1.4	0.1	9.3	-2.5	0.3
Mar	-5.0	-1.9	-5.9	1.3	3.9	-1.3	-1.2	-0.1	-3.3	-3.2	4.3	-5.3	0.0
Apr	-1.5	1.1	1.9	-0.5	0.7	-1.1	-1.2	1.3	-2.2	-0.8	-2.8	1.2	1.0
May	1.2	0.8	1.6	5.1	4.9	-0.4	-1.7	0.4	2.0	0.8	-1.8	5.2	1.8
Jun	0.0	0.0	2.5	1.8	-0.3	-1.0	-2.5	2.1	3.2	-0.3	4.2	5.4	2.8
Cum. Chg (%)	-6.5	2.6	-4.6	8.4	10.5	-6.6	-9.8	3.1	-2.9	-3.8	15.7	-0.0	6.4

There are also more dollars coming in from strong export sales - of steel, iron ore, paper, cellulose, beef, soybeans, chickens, etc. Brazil is running a trade surplus now, in contrast to a trade deficit it had in previous years.

Of the selected currencies in the table above, the key under-performer against the dollar in 2008:H1 was the South African **rand**, which depreciated cumulatively by 15.7 percent.

Concerns about global growth have been particularly damaging to South Africa. This is probably due to the large current account deficit, the increase in perceived political risk, and the deterioration in the growth outlook on the back of power outages. However, these developments have coincided with commodity price moves that are exceptionally favourable for South Africa. In addition, the 12 June rate hike by SARB has also increased the positive carry at the front end.

Cumulatively, in the first half of the year, the **cedi** depreciated by 6.4 percent against the dollar, compared with the Indian rupee's 8.4 percent and the Korean won's 10.5 percent depreciation.

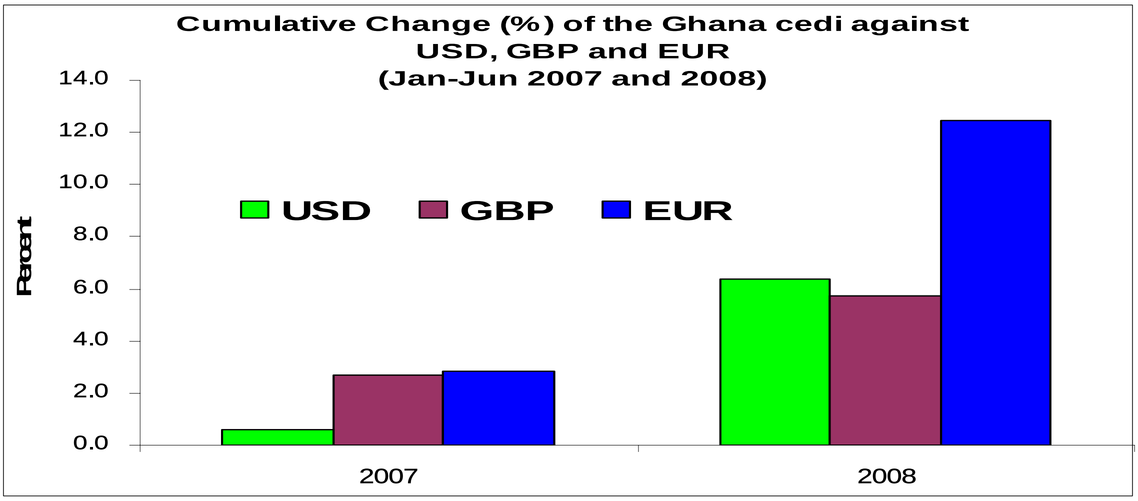
4.5 Local foreign exchange market

4.5.1 Nominal performance of the Ghana cedi – Bilateral and Effective

Bilateral movements

Bilateral movements of the Ghana cedi against core currencies

Month	EXCHANGE RATE			MONTHLY CHANGE (%)			CUMULATIVE (%)		
	USD	GBP	EUR	USD	GBP	EUR	USD	GBP	EUR
2007									
Dec-06	0.9233	1.8069	1.2132						
Jan-07	0.9244	1.8127	1.2029	0.1	0.3	-0.8			
Feb-07	0.9256	1.8151	1.2202	0.1	0.1	1.4			
Mar-07	0.9277	1.8176	1.2357	0.2	0.1	1.3	0.5	0.6	1.9
Apr-07	0.9281	1.8747	1.2626	0.0	3.1	2.2			
May-07	0.9280	1.8335	1.2481	-0.0	-2.2	-1.1			
Jun-07	0.9291	1.8547	1.2473	0.1	1.2	-0.1	0.6	2.7	2.8
2008									
Dec-07	0.9707	1.9310	1.4405						
Jan-08	0.9760	1.9432	1.4537	0.5	0.6	0.9			
Feb-08	0.9785	1.9480	1.4932	0.3	0.2	2.7			
Mar-08	0.9786	1.9526	1.5486	0.0	0.2	3.7	0.8	1.1	7.3
Apr-08	0.9879	1.9364	1.5612	1.0	-0.8	0.8			
May-08	1.0058	1.9780	1.5993	1.8	2.1	2.4			
Jun-08	1.0341	2.0429	1.6289	2.8	3.3	1.9	6.4	5.7	12.4

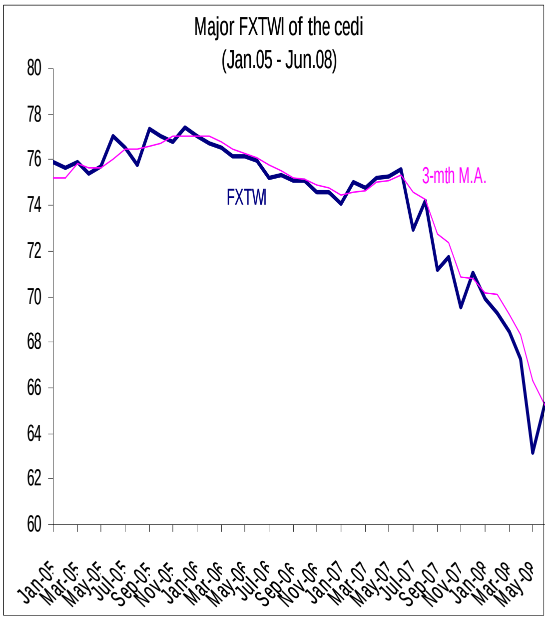


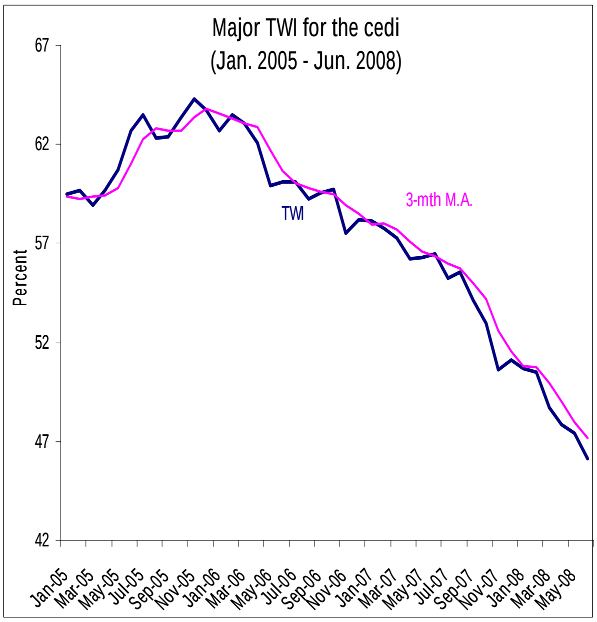
Developments in the nominal bilateral exchange rates of the cedi against the three core currencies – the US dollar, the pound sterling and the euro – show that in 2008:H1, the cedi depreciated, cumulatively, against all three core currencies by 6.4, 5.7 and 12.4 percent respectively. The corresponding depreciations in Q2 alone were 5.6, 4.6, and 5.1 percent respectively. In y/y comparison, the cedi depreciated cumulatively by 0.6, 2.7 and 1.9 percent against the three core currencies respectively in 2007:H1.

Nominal Effective Exchange Rate (NEER)

Trade Weighted Index (TWI)

The major (or core) Trade Weighted Index (TWI) is an index measure of the value (January 2002=100) of the Ghana cedi relative to the currencies of Ghana's top three trading currencies – the euro, the pound and the dollar. It is thus an effective index.





For the first half of 2008, the cedi depreciated by 4.9 percentage points in trade-weighted terms. This compares with a depreciation of 1.7 percentage points over the same period in 2007. The June 2008 value of the index was 46.16 and was 1.0 percentage point below its quarterly trend represented by the 3-month moving average.

Foreign Exchange Transactions Weighted Index (FXTWI)

Like the TWI, the FXTWI is effective, the difference being that while the TWI uses total merchandise trade (i.e. imports plus exports) as weights, the FXTWI uses the value of total foreign exchange transactions (i.e. purchases and sales) in the three core currencies as weights.

	Nominal TWI and FXTWI (Jan-Jun, 2007 and 2008)					
	2007			2008		
	Dec-06	Jun-07	Change (%)	Dec-07	Jun-08	Change (%)
TWI	58.18	56.46	-1.7	51.10	46.16	-4.9
FXTWI	74.60	75.60	1.0	71.03	65.28	-5.7

The FXTWI also shows that over the 2008:H1 period, the cedi depreciated in nominal effective terms by 5.7 percentage points as compared with an appreciation of 1.0 percentage point over the same period in 2007. The June 2008 value of the index of 65.28 was 4 basis points above the quarterly trend value.

4.5.2 Real exchange rate developments

The Real Trade Weighted Index (RTWI), which is a total trade (i.e. import plus export) weighted, and the Real Foreign Exchange Transactions Weighted Index (FXTWI), which is a total foreign exchange transactions (i.e. purchases plus sales) weighted, are both real effective exchange rate indices, (January 2002=100) and monitor the real exchange rate developments of the Ghana cedi. They track the (geometric) average of the exchange rate changes (in real terms) of the Ghana cedi against the three major trading currencies: the USD, GBP and EUR.

Real Effective Exchange Rate Developments

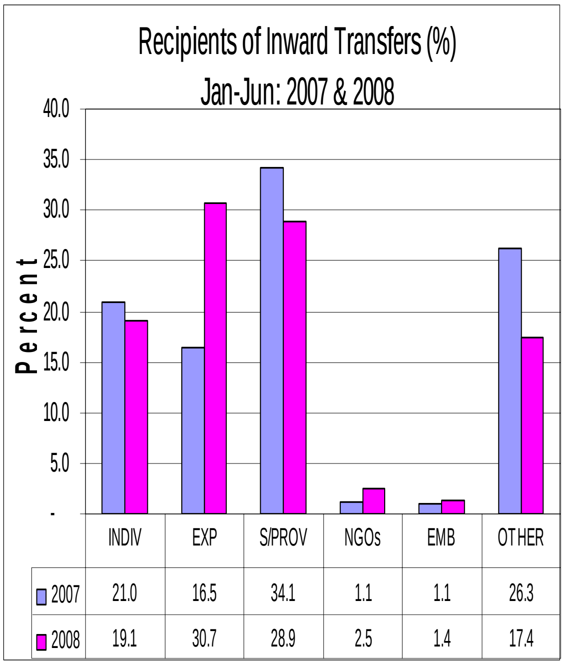
Month	REERI (Jan.02=100)		MONTHLY CHG (%)		CUM CHG. (%)	
	RFXTWI	RTWI	RFXTWI	RTWI	RFXTWI	RTWI
End-2000	85.9	85.0			-34.7	-25.1
End-2001	99.1	98.3			14.4	14.8
End-2002	94.2	86.0			-4.9	-12.2
End-2003	105.5	85.9			11.3	-0.2
End-2004	108.7	86.1			3.2	0.2
End-2005	126.1	105.2			17.4	19.1
End-2006	131.1	102.7			5.0	-2.5
2007						
Jan-07	131.2	104.9	0.1	2.2		
Feb-07	134.6	106.2	3.5	1.3		
Mar-07	135.4	106.2	0.7	-0.0	4.3	3.5
Apr-07	137.4	105.4	2.0	-0.7		
May-07	139.3	107.0	1.9	1.5		
Jun-07	140.9	108.4	1.6	1.5	9.8	5.8
2008						
Jan-08	134.1	100.0	-1.4	0.2		
Feb-08	135.7	101.8	1.6	1.8		
Mar-08	136.0	99.4	0.3	-2.5	0.5	-0.4
Apr-08	136.9	100.1	0.9	0.7		
May-08	132.2	101.7	-4.7	1.6		
Jun-08	137.8	100.8	5.6	-0.9	2.3	1.0

In trade-weighted terms, the real exchange rate of the cedi appreciated by 1.0 percentage point in 2008:H1 compared with an appreciation of 5.8 percentage points a year earlier. In fx transactions weighted terms, however, the real exchange rate of the cedi appreciated by 2.3 percentage points in the first half of 2008 as compared with an appreciation of 9.8 percent in 2007:H1.

4.5.3 Inward remittances

Private inward transfers – received by **NGOs, embassies, service providers, individuals etc. -** through the banks for the first half of 2008 amounted to $4.2 billion, which represents 33.4 percent increase over those for the corresponding period in 2007, which were in turn 15.7 percent increase over the transfers through banks in January-June 2006.

Inward Transfers thro' Banks: Jan-Jun, 2005 - 2008 ($'million)						
		Q1	Apr	May	Jun	TOTAL
2005		939.79	312.55	324.49	345.06	1,921.90
2006		1,274.28	449.99	504.70	457.60	2,686.56
2007		1,483.62	549.32	506.92	568.20	3,108.06
2008		2,008.43	801.44	616.05	720.56	4,146.49
Memorandum						
Change ($'m)	***2005-6***	*334.48*	*137.43*	*180.21*	*112.54*	*764.66*
	2006-7	*209.34*	*99.34*	*2.22*	*110.60*	*421.50*
	2007-8	*524.82*	*252.12*	*109.13*	*152.36*	*1,038.43*
Change (%)	***2005-6***	*35.6*	*44.0*	*55.5*	*32.6*	*39.8*
	2006-7	*16.4*	*22.1*	*0.4*	*24.2*	*15.7*
	2007-8	*35.4*	*45.9*	*21.5*	*26.8*	*33.4*



Of the total transfers in 2008:H1, $789.91 million (or 19.1 percent) accrued to individuals, compared with 22.7 percent a in January-June 2007.

Of the transfers through banks in 2008:H1, the share of exports was highest at 30.7 percent. Over the same period in 2007, the share of service providers was highest at 34.1 percent.

The top five recipient banks accounted for 66.8 percent of total transfers through banks in January-June 2008, compared with 65.6 percent in 2007:H1.

The shares of the top five banks for the corresponding period from 2002 to 2008 show a trend decline.

4.5.4 Foreign exchange purchases and sales

Foreign exchange transactions (i.e. purchases plus sales) by banks and forex bureaux in the first six months of 2008 amounted to $5.17 billion, which was 17.0 percent increase over purchases and sales over the same period in 2007.

FX PURCHASES AND SALES
($'million)

	Q1	Apr	May	Jun	Q2	TOTAL
2007						
DMBs	1,765.18	595.37	865.93	853.40	2,314.70	4,079.88
F/Bureaux	158.30	58.95	58.20	58.20	175.35	333.65
Total	1,923.48	654.32	924.13	911.60	2,490.05	4,413.53
2008						
DMBs	2,312.42	814.07	926.06	761.84	2,501.97	4,814.39
F/Bureaux*	178.53	60.83	55.32	56.32	172.47	351.00
Total	2,490.95	874.90	981.38	818.16	2,674.44	5,165.39
Memorandum						
Change in Total ($'m)	567.47	220.58	57.25	-93.44	184.39	751.86
Change in Total (%)	29.5	33.7	6.2	-10.3	7.4	17.0
Banks' share (%) - 2007	91.8	91.0	93.7	93.6	93.0	92.4
Banks' share (%) - 2008	92.8	93.0	94.4	93.1	93.6	93.2

*F/Bureaux number for June 2008 is provisional

The second quarter purchases and sales registered a year-on-year increase of 7.4 percent.

Using the share of forex bureaux and banks' transactions to represent their relative shares of the foreign exchange market, the forex bureaux' market share declined from 7.6 percent in January-June 2007 to 6.8 percent in January-June 2008.

4.6 Balance of payments

The overall balance of payments position recorded a deficit of US$782.7 million in the first half of 2008, following a strong build-up of reserves of US$980.0 million in the fourth quarter of 2007, partly from Sovereign Bond proceeds. The deficit compares with US$124.3 million in 2007:H1.

For the half year of 2008, the merchandise trade deficit is provisionally estimated at US$2,060.2 million, compared with a deficit of US$1,330.7 million for the same period in 2007. The current account is provisionally estimated to have recorded a deficit of US$1,171.3 million (in part due to an increase of US$411.0 million in the oil import bill), compared with a deficit of US$639.8 million for the same period in 2007.

Total merchandise imports for the period January to June 2008 amounted to US$4,945.6 million, compared with US$3,473.6 million for the same period in 2007 (an annual growth of 42.4 percent).

Oil imports for the period amounted to US$1,257.0 million (25.4 percent of total imports) compared with US$846.6 million (24.4 percent of total imports) for the same period in 2007.

GHANA: BALANCE OF PAYMENTS (In $'million, unless otherwise stated)						
	2007:H1	2007:H2	2007	2008:H1	2008:H2 Proj.	2008 Proj.
Merchandise Exports (f.o.b.)	2,142.84	2,029.30	4,172.14	2,885.37	2,642.90	5,528.27
Cocoa	742.29	390.36	1,132.65	934.16	462.77	1,396.93
Gold	821.00	912.78	1,733.78	1,188.26	1,425.00	2,613.26
Others	579.55	726.16	1,305.71	762.95	755.13	1,518.08
Merchandise Imports (f.o.b.)	-3,473.58	-4,592.54	-8,066.11	-4,945.55	-5,558.70	-10,504.25
Non-Oil	-2,626.94	-3,344.17	-5,971.11	-3,688.51	-3,851.30	-7,539.81
Oil	-846.63	-1,248.37	-2,095.00	-1,257.03	-1,707.41	-2,964.44
Trade Balance	-1,330.74	-2,563.24	-3,893.98	-2,060.18	-2,915.80	-4,975.98
Current Account (incl. official transfers)	-639.77	-1,511.70	-2,151.47	-1,171.29	-1,921.72	-3,095.20
Capital and Financial Account	518.10	2,885.19	2,591.42	450.31	2,290.39	2,740.69
Capital Account	106.80	81.34	188.14	113.24	224.56	337.80
Financial Account	411.30	2,803.85	2,403.28	337.07	2,065.83	2,402.89
Private Capital	292.35	769.13	1,061.48	543.79	1,309.47	1,855.44
FDI	263.76	706.62	970.38	335.79	1,248.91	1,586.88
Others	28.59	62.51	91.10	208.00	60.56	268.56
Short-Term Capital*	-200.13	358.87	158.74	-387.35	522.04	134.69
Official Capital	320.69	1,659.82	1,168.64	185.91	234.60	420.51
OVERALL BALANCE	-124.31	537.42	413.11	-782.67	368.67	-414.00
Growth Rates (year-on-year, %)						
Merchandise Exports (f.o.b.)	*14.5*	*9.4*	*12.0*	*34.7*	*30.2*	*32.5*
Merchandise Imports (f.o.b.)	*9.8*	*28.0*	*19.4*	*42.4*	*21.0*	*30.2*
Non-Oil	*12.4*	*20.7*	*16.9*	*40.4*	*15.2*	*26.3*
Oil	*2.3*	*52.6*	*27.3*	*48.5*	*36.8*	*41.5*
Underlying commodity prices (Period average)						
Cocoa ($ per metric tonne)	*1,782.35*	*1,797.80*	*1,787.20*	*2,150.75*	*2,150.75*	*2,150.75*
Gold ($ per ounce)	*651.89*	*720.82*	*686.45*	*904.62*	*950.00*	*928.82*
Oil ($ per barrel)	*66.59*	*84.01*	*75.81*	*113.00*	*150.00*	*131.95*
Memorandum						
Trade Deficit / GDP (%)	*-17.7*	*-36.1*	*-26.5*	*-23.8*	*-33.7*	*-31.1*
Current Account Def / GDP(%)						
(Excl. Off. transfers)	*-10.7*	*-21.9*	*-16.1*	*-16.1*	*-23.7*	*-21.6*
(Incl. Off. transfers)	*-8.5*	*-21.3*	*-14.7*	*-13.5*	*-22.2*	*-19.4*
Exports / GDP (%)	*28.5*	*28.6*	*28.4*	*33.3*	*30.5*	*34.6*
Imports / GDP (%)	*49.7*	*69.8*	*59.2*	*61.3*	*68.7*	*70.8*
Non-Oil	*38.1*	*51.3*	*44.3*	*46.5*	*48.5*	*51.4*
Oil	*11.5*	*18.0*	*14.6*	*14.9*	*20.2*	*19.0*
Capital and Financial Account /GDP (%)	*6.9*	*40.6*	*17.7*	*5.2*	*26.5*	*17.2*
Private Capital	*3.9*	*10.8*	*7.2*	*6.3*	*15.1*	*11.6*
FDI	*3.5*	*9.9*	*6.6*	*3.9*	*14.4*	*9.9*
Others	*0.4*	*0.9*	*0.6*	*2.4*	*0.7*	*1.7*
*Short-Term Capital**	*-2.7*	*5.1*	*1.1*	*-4.5*	*6.0*	*0.8*
Official Capital	*4.3*	*23.4*	*8.0*	*2.1*	*2.7*	*2.6*

*Mainly for cocoa trade finance

Non-oil imports amounted to US$3,688.5 million for the first half of the year (74.6 percent of total imports), compared with US$2,626.9 million for the same period in 2007. Capital and intermediate goods together accounted for 74.8 percent of total imports compared with 76.9 percent for 2007.

The current account deficit (13.5 percent of GDP) in 2008:H1 was partially financed by private capital (46.4 percent) and official capital (15.9 percent).

4.7 Gross International Reserves (GIR)

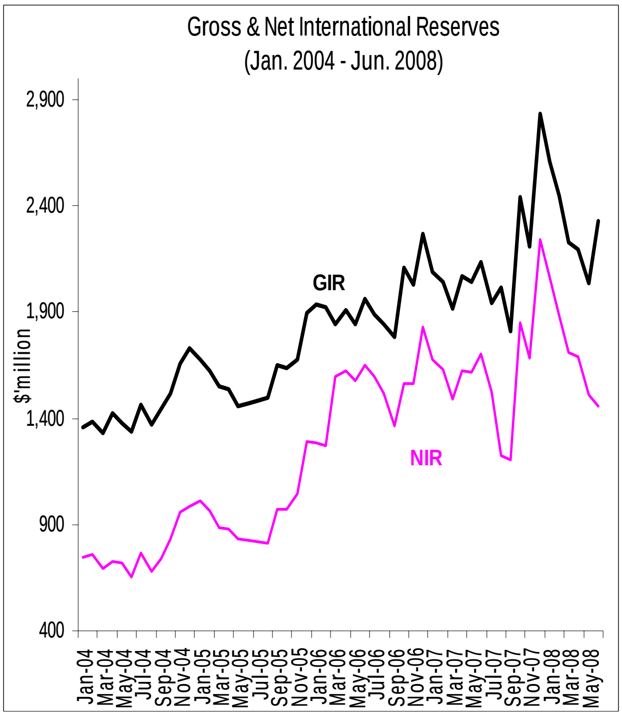
The GIR position of the Bank declined, in a seasonal pattern, steadily throughout 2007:Q1, but corrected and increased steadily throughout 2007:Q2, but got corrected in the third quarter and recorded an increase of 56.5 percent in 2007:Q4 alone mainly due to inflows of proceeds from Ghana's first sovereign bond issue.

In 2008:Q1, the GIR registered a decline of 21.5 percent to a level of $2,226.89 million. This significant drawdown was partly due to the outflow of the proceeds from the sovereign bond which were earmarked for specific projects.

In Q2, the GIR increased by 4.4 percent to $2,325.6 million at the end of June, an increase of 8.7 percent in year-on-year terms.

Net International Reserves (NIR) followed a similar pattern. In 2008:Q1, it declined by 23.6 percent and further 14.8 percent in Q2. The June 2008 level of the NIR was $1,458.7 million, which was 14.4 percent decline from the June 2007 level of $1.703.9 million.

The June 2008 GIR position of $2.4 billion translates, on the average, into goods and services import cover of 2.8 months.



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