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Overview

In the face of the global financial crisis and soaring oil prices, monetary policy was restrictive in the fourth quarter of 2007. The policy was targeted at subduing inflationary pressures as well as stabilize the exchange rate of the Dalasi.

Money supply increased by 4.8 percent in the fourth quarter from the second quarter due entirely to developments in the external sector.

The net foreign assets (NFA) of the banking system increased to D4.0 billion, or by 16.1 percent due entirely to the increase in the NFA of the Central Bank. The net external position of commercial banks, on the other hand, contracted during the same period.

The NDA of the banking system declined to D4.3 billion, or by 4.1 percent from the preceding quarter mainly due to the decline in claims on government net and public entities by 17.3 percent and 6.3 percent respectively.

Total outstanding claims of commercial banks on the major economic sectors increased to D2.6 billion in the final quarter of 2007, or by 10.6 percent from a year earlier. Distributive trade continued to account for the lion's share of total outstanding private sector credit with 27.4 percent of total loans.

Total liquid assets of commercial banks decreased to D2.6 billion or by 38.3 percent from the previous quarter. The increase reflected the growth in foreign bank balances and investments in Treasury bills which rose to D1.3 billion and D2.5 billion or by 16.6 percent and 2.2 percent respectively from the previous quarter.

End-period inflation, measured by the National Consumer Price Index, rose significantly to 6.0 percent at end-December 2008 compared to 0.4 percent a year earlier. The acceleration in the rate of inflation could be attributed to the continued rise in global food and oil prices which caused a rise in the nation's import bill. Both food and non-food inflation rose significantly to 9.5 percent and 2.1 percent respectively from a year earlier.

During the fourth quarter of 2008, trading in the inter-bank market remained vibrant as evidenced by the increase in the volume of foreign currency transactions. Although the domestic currency strengthened against all the major currencies traded in the inter-bank market on annualized basis, a quarterly analysis, however, reveals that there was a complete reversal in the final quarter of 2008 compared to the third quarter.

Government fiscal performance improved at end-December 2007 relative to the corresponding period in 2006. However, government fiscal operations worsened in the final quarter of 2007 compared to the previous quarter. Domestic revenue declined to D715.6 million or by 13.7 per cent whilst total expenditure and net lending rose to D1.1 billion or by 24.3 percent from the previous quarter.

The overall budget balance (commitment basis) including grants recorded a deficit of D283.2 million during the review quarter. The overall budget balance (commitment basis) excluding grants was a deficit of D388.0 million. However, the primary balance registered a surplus of D98.4 million.

PART 1

DEVELOPMNTS IN THE DOMESTIC ECONOMY

(1.0) Monetary Developments

(1.1) Monetary Policy

Monetary policy in the fourth quarter of 2007 was aimed at maintaining price and exchange rate stability and a viable external position.

To achieve this, a tight monetary policy was pursued throughout 2007 premised on reserve money and money supply growing at 10.6 percent and 13.3 percent with the assumption of stable velocity and money multiplier ratios of 2.2 and 2.9 respectively.

(1.2) Money Supply

Money supply grew by 4.8 percent in the fourth quarter of 2007 following a minuscule growth of 0.8 percent in the preceding quarter. Money supply rose to D8.3 billion or by 6.7 percent year-on-year compared to D7.8 billion and a growth rate of 26.2 percent in the corresponding period a year earlier. The deceleration in the growth rate of money supply was mainly due to the pursuance of tight monetary policy by the Bank throughout the year.

The increase in money supply in the fourth quarter of 2007 relative to the previous quarter was more pronounced in the growth in narrow money (M1). Narrow money (M1), consisting currency outside banks and demand deposits increased to D4.2 billion or by 12.5 percent in quarter four, 2007 compared to the 5.8 percent contraction in the

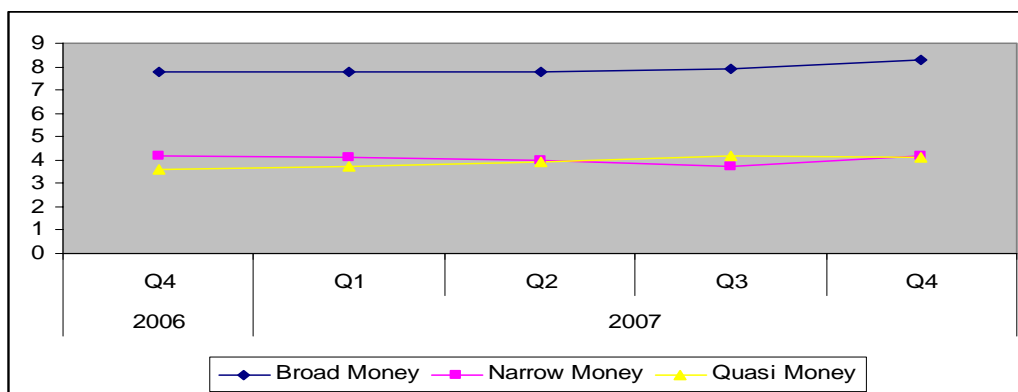
preceding quarter. Currency outside banks and demand deposits rose to D1.7 billion or by 8.3 percent and D2.5 billion or by 15.5 percent respectively. The ratio of narrow money to broad money grew from 47.4 percent in September 2007 to 50.9 percent at end-December 2007.

Table 1: Monetary Survey in (D'million)

	2005	2006	2007			
	Decemb er	Decemb er	March	June	Septem ber	Decemb er
NET FOREIGN ASSETS	3174.07	4330.40	4,613.13	4567.91	3,469.67	4,028.29
Monetary Authorities	2105.71	286 6.27	2,544.18	2,631.31	2,338.07	3,055.25
Foreign assets	2745.12	3369.36	3,103.11	3,163.58	2,921.68	3,222.61
Foreign liabilities	-639.41	-503.09	-558.93	-532.27	-583.61	-167.36
Commercial banks	1068.36	1464.13	2068.95	1936.60	1131.60	973.04
NET DOMESTIC ASSETS	2971.12	3427.20	3209.88	3264.12	4426.61	4,245.62
Domestic Credit	3510.38	4259.20	4124.09	3906.48	4150.96	4,200.46
Claims on Government, net Advance to Govt. in foreign currency	773.55	1504.12	1,526.91	1,289.14	1,437.55	1,188.62
Claims on Public Entities	574.80	74.74	74.74	37.54	37.54	0
Claims on Private Sector	259.76	267.54	206.74	211.63	243.93	228.57
Claims on forex bureaux	1718.99	2229.51	2,132.41	2184.88	2248.64	2,599.98
Other items, net	-539.26	-832.00	-914.21	-642.36	275.65	45.16
o/w : Revaluation account	324.16	-116.79	-100.97	-11.87	595.07	457.69
SDR allocation	-224.63	-217.80	-217.8	-217.8	-214.26	-214.26
BROAD MONEY	6145.19	7757.60	7823.01	7832.03	7896.28	8,273.90
Narrow Money	3320.60	4185.40	4,084.13	3971.93	3741.54	4,208.52
Quasi Money	2824.59	3572.20	3738.89	3860.10	4154.73	4,065.39

In contrast, quasi money comprising savings and time deposits decreased to D4.1 billion or by 2.2 percent from the previous quarter and by 7.8 percent during the same quarter of the preceding year. Savings and time deposits declined by 2.4 percent and 1.7 percent respectively for the quarter under review. Consequently, the share of quasi money to broad money declined from 52.6 percent to 49.1 percent, quarter-on-quarter.

Chat 1: Money Supply in (D'billion)



(1.3) Factors Affecting Money Supply

(a) Net Foreign Assets (NFA)

The net foreign assets (NFA) of the banking system increased to D4.0 billion, or by 16.1 percent during the last quarter of 2007 compared to a marked increase of 21.7 percent in the corresponding quarter of the previous year. The increase in the NFA of the banking system for the quarter under review was entirely on account of the increase in the NFA of the Central Bank by 30.7 percent to D3.1 billion, reflecting the 71.3 percent drop in its foreign liabilities complemented by the 10.3 percent increase in its foreign assets.

In contrast, the NFA of deposit money banks declined to D973 million, or by 14.0 percent in the fourth quarter of 2007. This was entirely on account of the 199.2 percent jump in their external liabilities.

(b) Net Domestic Assets (NDA)

The NDA of the banking system declined to D4.3 billion, or by 4.1 percent from the preceding quarter of 2007 mainly due to the decline in claims on government net and public entities by 17.3 percent and 6.3 percent respectively. The banking system's claims on government net decreased from D1.5 billion at end-September 2007 to D1.2 billion

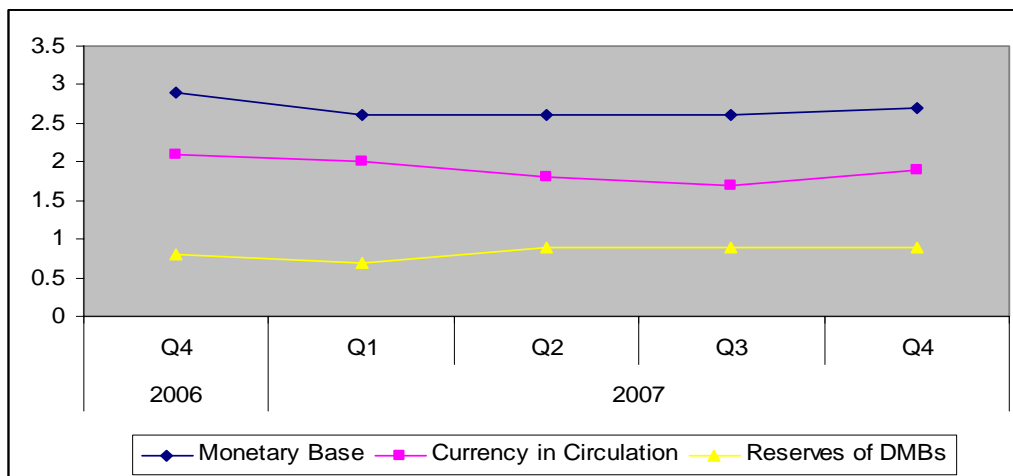
at end-December 2007. This improved performance of government is explained by increased deposits. Advances to public entities by the banking system decreased to D228.0 million at the end of the fourth quarter of 2007 from D243.9 million at the end of the third quarter. In contrast, private sector credit rose to D2.9 billion or by 14.4 percent from end-September 2007. On an annualized basis, the NDA of the banking system rose by 23.9 percent mainly on account of a 15.4 percent increase in private sector credit.

(1.4) Reserve Money

During the fourth quarter of 2007, the Bank implemented policies directed at preventing excessive liquidity in the system while at the same time ensuring continued economic activity by supplying the system with adequate liquidity.

Reserve money (currency issued and banks' reserves) increased to D2.7 billion or by 4.1 percent in the fourth quarter of 2007 compared to 19.9 percent during the same quarter of 2006. Currency issued rose by 12.2 percent while reserves of commercial banks declined by 10.3 percent. The increase in currency issued tends to exhibit a seasonal pattern growing at a stronger pace in the fourth and first quarters reflecting buoyant economic activity during this period.

Chart 2: Monetary Base and its Component in (D'billions)

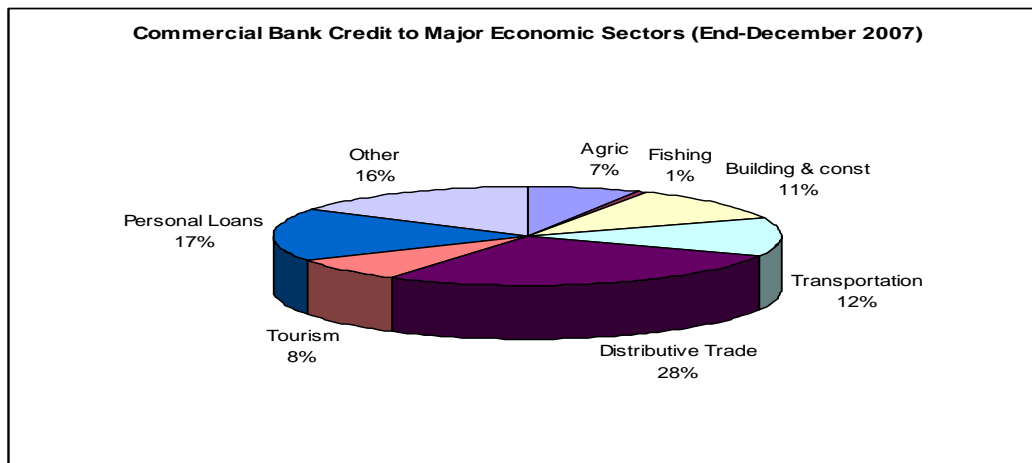


Monetary base, however, fell by 4.3 percent year-on-year.

(2.0) Commercial Banks' Credit to the Major Economic Sectors

Commercial banks' loans and advances to the major economic sectors increased to D2.6 billion in the final quarter of 2007, or by 10.6 percent from a year earlier. Distributive trade continued to account for the lion's share of total outstanding private sector credit, accounting for 27.4 percent of total loans. Credit to the sector increased to D720.0 million, or by 39.0 percent during the review period.

Credit to agriculture, fishing and tourism decreased to D189.39 million, D16.24 million and D202.27 million, or by 59.02 percent, 14.80 percent and 1.49 percent from a year ago. In contrast, loans and advances to building and construction, transportation and personal loans increased by 83.2 percent, 80.17 percent and 10.0 percent to level off at D302.17 million, D325.60 million and D449.46 million respectively.



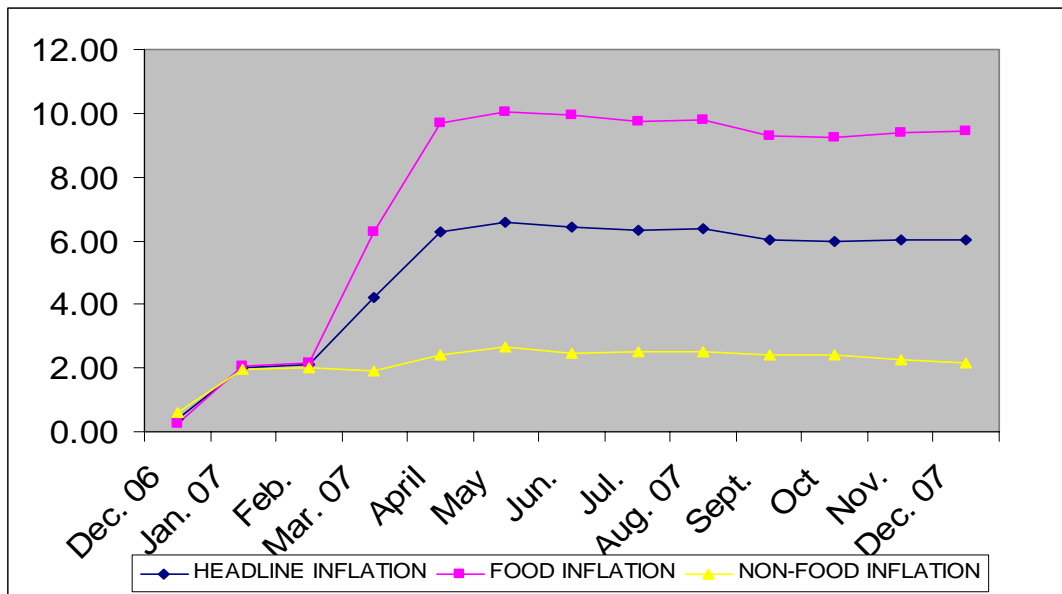
(3.0) Liquidity Position of Commercial Banks

Commercial Banks total liquid assets decreased to D2.6 billion or by 38.3 percent from the previous quarter, it rose by 0.07 percent compared to the same period last year. Their reserves fell to D1.5 billion or by 18.2 percent from the preceding quarter. Their deposits at the Central Bank increased to D921.9 million or by 1.4 percent from the quarter ending September 2007. Deposit money banks' cash holdings decreased to D171.6 million or by 15.5 percent from the third quarter. Similarly, their foreign bank balances and investments in Treasury bills increased to D1.3 billion and D2.5 billion, or by 16.6 percent and 2.2 percent from the previous quarter.

The required liquid assets of commercial banks, based on a statutory requirement of 30 percent of total liabilities to the public, stood at D1.88 billion for the quarter ending December 2007, compared to D1.811 billion in the previous quarter. It fell 14 by percent compared to the figure registered in the same period a year ago. Their excess liquidity totaled D756 million or 40 percent of their liquidity Requirement.

(4.0) National Consumer Price Index

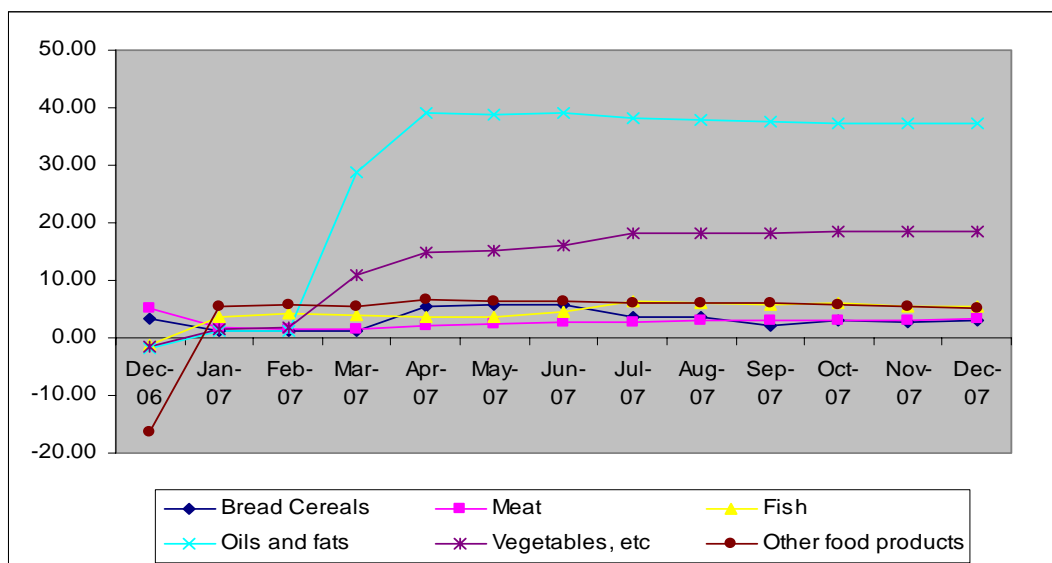
End-period inflation, measured by the National Consumer Price Index, rose significantly to 6.0 percent at end-December 2008 compared to 0.4 percent a year earlier. The acceleration in the rate of inflation could be attributed to the continued rise in global food and oil prices which caused a rise in the nation's import bill. However, domestic consumer price inflation remained subdued in the fourth quarter of 2008 compared to the third quarter following the unexpected sharp appreciation of the Dalasi in the third quarter.



Food consumer price inflation rose markedly to 9.5 percent at end-December 2007 from a quarter of a percentage point during the same period last year. 'Bread cereal' and 'meat', the main drivers of the food basket with a combined weight of nearly 50.0 percent, increased by more than half a percentage point during the quarter under review. Year-on-year, food inflation of bread cereals fell to 2.9 percent at end-December 2007 from 3.4 percent. In a similar vein, price inflation of 'meat' was 3.4 percent compared to 5.0 percent recorded at end-December 2006.

Prices of 'fish', 'oils and fats', 'fruits and nuts', vegetables, root crops and tubers and other food products increased to 5.4 percent, 37.2 percent, 22.4 percent, 18.5 percent and 5.1 percent at end-December 2007 from negative 1.1 percent, negative 1.9 percent, negative 6.4 percent, negative 1.4 percent and negative 16.5 percent respectively.

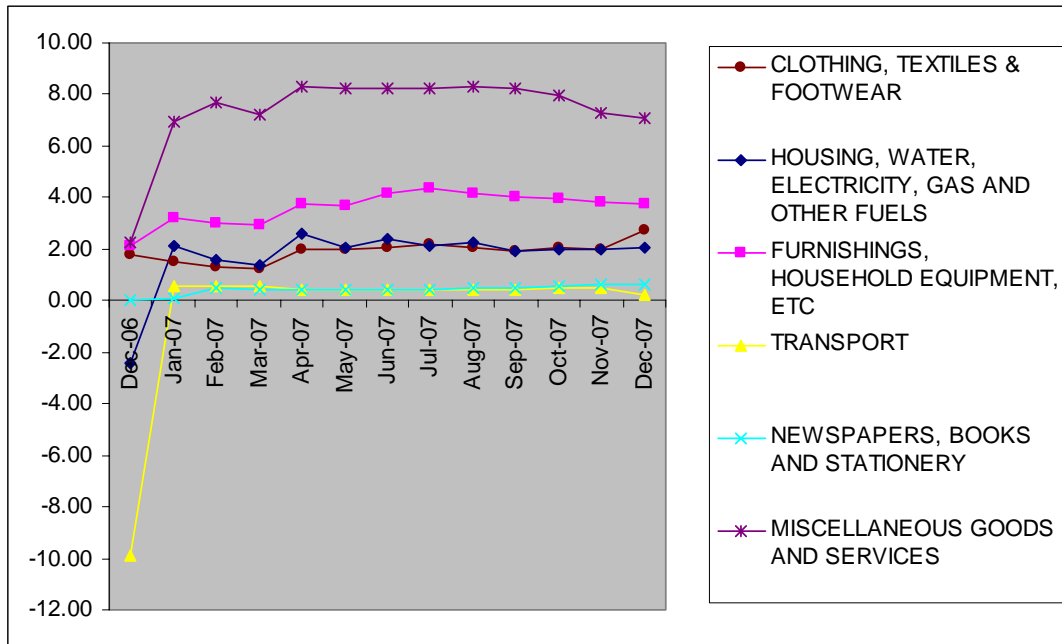
Chart 2: Components of Food Inflation



Non-food inflation rose significantly from 0.6 percent at end-December 2006 to 2.1 percent at the end of the quarter under review. Despite this annual increase, non-food inflation inched down slightly from the end of the third quarter of 2007. All but one of the non-food components increased during the review quarter. Prices of 'clothing, textiles and footwear, 'clothing, garments and tailoring services', 'housing, water, energy, gases and other fuels', 'furnishing and household equipment etc', 'transportation', 'hotels, cafes and restaurants' and 'miscellaneous goods and services' increased to 2.8 percent, 2.0 percent, 3.8 percent, 0.2 percent, 3.2 percent and 7.1 percent at end-December 2007 from 1.8 percent, negative 2.4 percent, 2.1 percent, negative 9.9 percent, negative 3.5 percent and 2.2 percent respectively at the end of the corresponding period last year. In

contrast, 'clothing, garments and tailoring services fell slightly to 1.7 percent from 1.8 percent during the period under review.

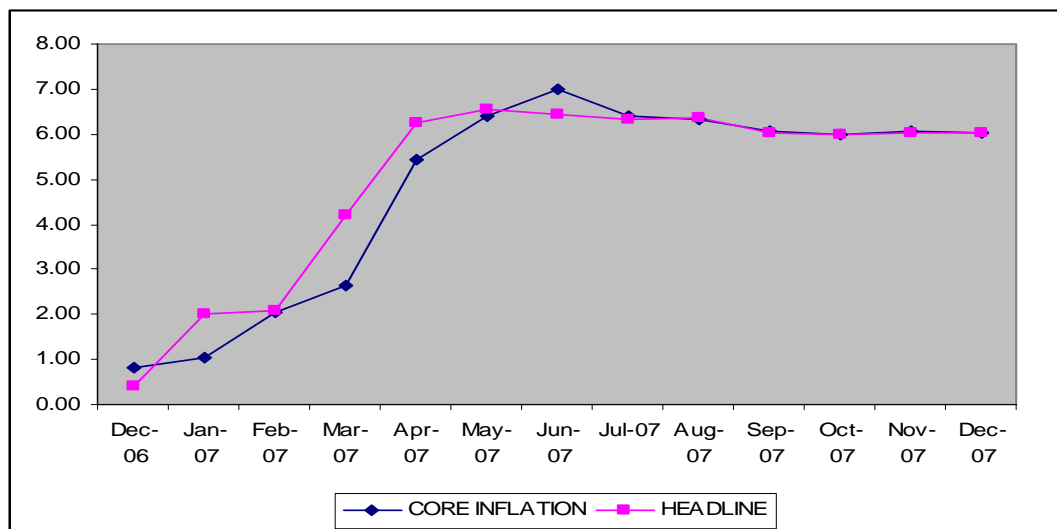
Chart 3: Components of Non-food Inflation.



Core Inflation

Core inflation removes the effects of energy, utility prices and volatile food items from headline inflation for the purpose of discovering the underlying or trend inflation in the medium to long-term. This measure of inflation increased significantly to reach 6.0 percent at end-December 2007 from a twelve month low of 0.8 percent at end-December 2006. Compared to the previous quarter, core inflation remains virtually unchanged at 6.05 percent.

Chart 4: CORE INFLATION AND HEADLINE INFLATION



(5.0) Foreign Exchange Developments

The relative stability attained in the external sector in the recent past, attributable to the implementation of prudent monetary policies with some fiscal consolidation, has facilitated the stability and strengthening of the Dalasi against other internationally traded currencies, in particular, the US dollar. This follows the sharp appreciation in the third quarter of 2007 which saw the Dalasi gain momentum against all the major international currencies traded in the inter-bank market. Volume of transactions in the inter-bank market increased to D38.5 billion in 2007 from D34.0 billion, or by 12.9 per cent in 2006. Year-on-year, the domestic currency remains strong, although it did lose some grounds against all the major currencies from the third quarter of 2007 to the end of the fourth quarter of 2007. The US dollar remains the most traded currency in the domestic inter-bank market accounting for 62.34 per cent of total transaction volumes in 2007.

Volume of Transactions

The total volume of transactions in the inter-bank market measured by aggregate sales and purchases of foreign exchange increased to D38.5 billion, or 12.9 per cent from 2006, reflecting mainly increased foreign inflows. Supply of foreign currency in the inter-bank market, gauged by total purchases, grew to D19.1 billion, or by 6.4 per cent whilst sales, indicative of demand rose to D19.3 billion or by 20.4 per cent from 2006.

Table 3: Volume of Transactions in the Inter-bank Market (in D'millions)

	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Purchases	3812.56	4277.55	4446.0	5454.3	5662.5	5388.6	4744.4	3341.0
Sales	3800.59	3826.35	3738.4	4714.9	4968.7	5721.5	5070	3582.9
Total	7613.15	8103.90	8184.4	10169	10631	11110	9814.3	6923.9

However, on a quarterly basis, volume of transactions declined from D9.8 billion in the third quarter to D6.9 billion in the fourth quarter of 2007, reflecting reduced participation by investors in the foreign exchange market.

Market Share of Key Currencies

A decomposition of transaction volumes in the inter-bank market by currency revealed that the US dollar remains the dominant currency, accounting for 62.34 per cent of the total, slightly up from 61.67 in 2006. The market share of the Pound Sterling increased from 14.6 per cent in 2006 to 15.24 per cent during the review period whilst the market share of the euro edged up slightly to 21.21 per cent from 21.19 in the preceding year. Transactions in Swedish Kroner dropped from 0.46 per cent in 2006 to 0.43 per cent in 2007. Similarly, transactions in other

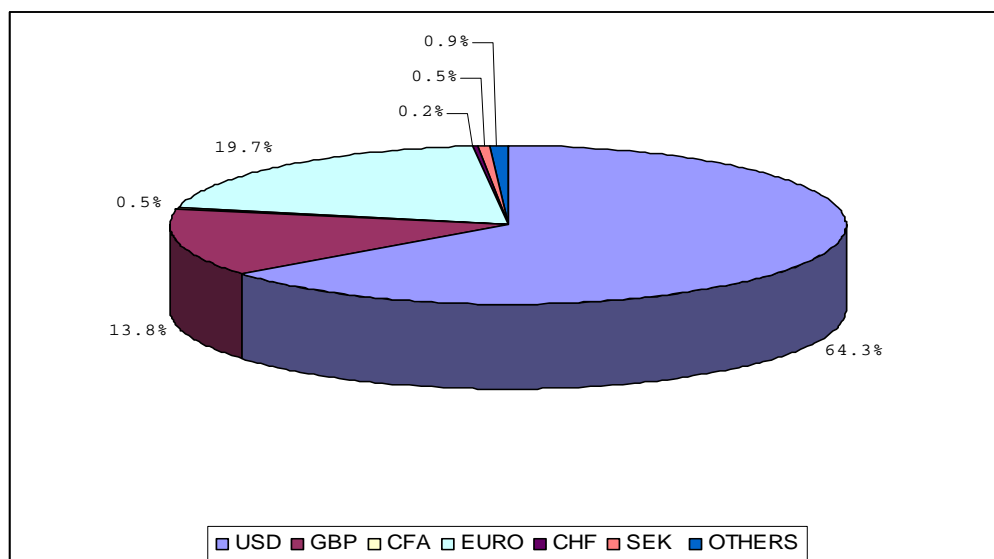
currencies declined from 0.99 per cent in 2006 to 0.51 per cent in the year under review.

On a quarterly basis, the US dollar's share increased from 61.92 per cent in the third quarter to 64.3 per cent in the review period while the share of the British Pound and Euro declined from 13.99 per cent and 22.24 per cent to 13.84 per cent and 19.7 per cent in the fourth quarter of 2007.

Table 4: Market Share of Key Currencies (%)

Period	2006	2007			
	Q4	Q1	Q2	Q3	Q4
USD	59.27	60.38	63.35	61.92	64.3
GBP	15.71	15.48	14.81	13.99	13.84
CFA	0.5	0.46	0.55	0.57	0.53
EURO	23.02	22.06	20.39	22.24	19.7
CHF	-	0.35	0.32	0.57	0.23
SEK	0.49	0.51	0.37	0.51	0.46
Other	0.99	0.76	0.2	0.29	0.93

Figure 4: Market Share of Key Currencies in the Inter-bank Market



Exchange Rate Movements

Exchange rate movements at the end of the last quarter indicated a reversal of the appreciation of the Dalasi relative to all major international currencies that had characterized the major part of the second half of 2007. From end-September 2007, the Dalasi weakened by 18.2 per cent to D22.5394 per US Dollar at end-December, 2007. The Domestic currency depreciated by 14.4 Per cent, 19.7 per cent, 23.3 per cent and 8.1 per cent against the British Pound, Euro, CFA Franc and Swedish kroner respectively.

However, year-on-year, the Dalasi appreciated against all the major currencies traded in the inter-bank foreign exchange market. It strengthened by 19.6 percent, 17.5 per cent, 9.3 percent, 8.1 percent and 14.2 per cent against the British Pound, Euro, CFA Franc and Swedish kroner respectively.

Table 5: Exchange Rate Movements

	GBP	USD	SEK	CFA	EURO
2006 Q1	49.22	28.14	354.20	256.62	33.86
Q2	51.01	28.05	355.25	267.35	34.92
Q3	52.36	28.04	362.17	264.48	35.47
Q4	53.89	28.05	383.72	277.37	36.20
2007 Q1	53.61	27.68	367.55	274.54	36.29
Q2	52.76	26.52	373.92	272.31	35.68
Q3	38.85	19.069	304.7	206.68	27.43
Q4	43.46	22.54	329.25	254.82	32.82

Nominal effective Exchange Rate (NEER)

The nominal effective exchange rate (Weighted, 2005=100) index measures the value of the Dalasi vis-à-vis the five major partner currencies in the inter-bank market. In nominal effective terms, the

Dalasi appreciated by 16.9 per cent relative to end-December 2006. From December 2006, the Dalasi appreciated by 0.8 per cent, 3.9 per cent and 29.4 in March, June and September 2007 respectively. In contrast, between September and December 2007, the Dalasi depreciated by 17.8 per cent in nominal terms.

Table 6: Nominal Exchange Rate Index

		GBP	USD	SEK	CFA	Euro	OVERALL	Monthly Changes*
Weights (2005=100)		18.1	59.7	0.7	0.6	20.9	100.0	
2006	Dec.	108.2	99.7	110.6	110.1	107.4	103.0	0.9
2007	Jan	108.1	99.4	111.8	107.8	107.5	102.8	-0.1
	Feb	108.2	99.1	111.3	107.9	107.0	102.6	-0.3
	Mar	107.7	98.4	105.9	109.0	107.6	102.1	-0.4
	Apr	107.8	97.7	109.1	108.7	107.9	101.8	-0.3
	May	107.0	96.9	105.5	111.3	107.2	101.0	-0.8
	Jun	106.0	94.2	107.7	108.1	105.8	99.0	-2.0
	Jul	104.1	90.0	106.0	104.7	105.0	95.9	-3.1
	Aug	95.3	82.6	102.4	96.9	94.3	87.5	-8.7
	Sep	78.0	67.8	87.8	82.0	81.4	72.7	-17.0
	Oct	80.5	69.1	77.6	87.4	80.6	73.7	1.4
	Nov	87.6	75.9	85.1	93.5	89.9	81.1	9.9
	Dec	89.3	80.1	94.9	101.16	97.4	85.6	5.5

* (+) indicates depreciation and (-) indicates appreciation

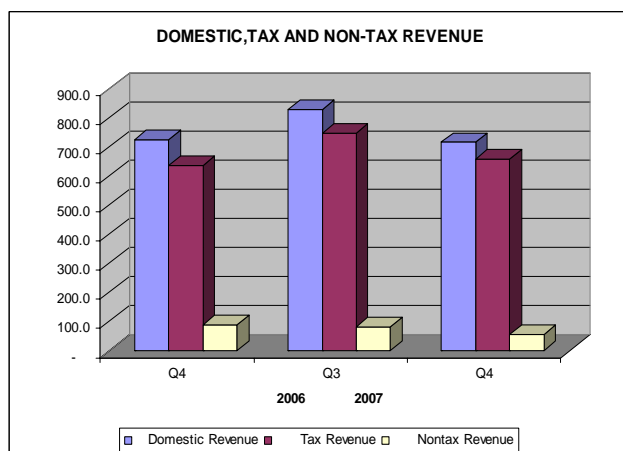
Outlook for the Dalasi

Looking ahead, the Dalasi is projected to be relatively strong in the near term. This is underpinned by the continued pursuance of prudent fiscal and monetary policies, increased foreign exchange inflows, continued US Dollar weakness and the reduced demand for foreign exchange to service external debts, following the recently announced HIPC and MDRI debt relief.

(6.0) Government Fiscal Operations

Total revenue and grants, as at end-December, 2007 stood at D820.5 million, a decrease of 4.3 percent compared to the end-September, 2007. Year-on-year, total revenue and grants increased by 11.9 percent reflecting the 280.4 percent increase in grants. Domestic revenue declined to D715.6 million or by 13.7 per cent relative to the outturn generated in the previous quarter due, in the main, to a fall in non-tax receipts. Domestic revenue fell below the fourth quarter projection by D72.2 million or 9.2 per cent.

Tax revenue declined to D659.1 million or 12.0 percent from the previous quarter and fell substantially below projection by D24.7 million



or 3.6 per cent. The decline in this revenue category is explained by the substantial decline in revenue from direct taxes. However, tax revenue rose by 3.5 per cent, year-on-year.

Table 7: TOTAL REVENUE AND GRANTS (D'millions)

RECEIPTS(in millions of GMD)	2006		2007					
	Q4	Q3	Q4	Q4 Proj	percent change	Quarterly percent change	Above(+) Below(-) Target	Percent projection
Revenue and grants	733.2	857.3	820.5	1,060.6	11.9	-4.3	-240.1	77.4
<i>Percentage of GDP</i>	<i>20.5</i>	<i>21.8</i>	<i>20.9</i>					
Domestic Revenue	726.2	829.7	715.6	787.8	- 1.5	-13.7	-72.2	90.8
Tax Revenue	637.1	748.7	659.1	683.9	3.5	-12.0	-24.7	96.4
Direct Tax	152.3	210.9	148.8	215.5	- 2.3	-29.5	-66.7	69.0
Personal	54.1	111.3	79.4	69.6	46.9	-28.6	9.8	114.1
Corporate	92.2	92.7	63.9	148.0	- 30.7	-31.0	-84.1	43.2
Indirect Tax	484.7	537.7	510.4	468.4	5.3	-5.1	42.0	109.0
<i>o/w :Domestic Tax on goods and services</i>	<i>125.0</i>	<i>118.6</i>	<i>123.9</i>	<i>120.6</i>	<i>- 0.9</i>	<i>4.5</i>	<i>3.3</i>	<i>102.8</i>
Tax on International Trade	359.7	419.1	386.5	347.8	7.4	-7.8	38.7	111.1
Duty	185.2	216.3	199.3	170.1	7.6	-7.9	29.2	117.2
Sales tax on imports	174.5	202.8	187.2	177.7	7.3	-7.7	9.4	105.3
Nontax Revenue	89.1	81.0	56.5	103.9	- 36.6	-30.3	-47.4	54.4
Grants	7.0	27.6	104.8	272.8	1,394.9	280.4	-167.9	38.4
Program	-	0.0	0.0	0.0			0.0	
Projects	7.0	27.6	97.3	225.7	1,288.0	253.1	-128.3	43.1
HIPC	-		7.5	44.3			-36.8	16.9
Other				2.8			-2.8	0.0

Revenue from direct taxes declined markedly to D148.8 million or by 29.5 per cent compared to quarter three of 2007 and 31.0 per cent below the third quarter budget. From the third quarter 2007, direct taxes rose by 2.3 per cent. The decline in this tax category during the quarter under review is attributed to the substantial decrease in all its sub-components. Personal taxes decreased markedly by 28.6 per cent whereas corporate taxes fell by 31.0 per cent.

Indirect tax revenue generated during the fourth quarter 2007 amounted D510.1 million, representing an increase of 5.1 per cent from the previous quarter. Revenue from indirect taxes overshoot its quarterly projection by D42.0 million or 9.0 per cent. Revenue from International trade taxes rose to D386.5 million or by 7.4 percent on annualized basis but fell by 7.8 percent from the previous quarter.

Non-tax revenue decreased to D56.5 million or by 30.3 percent from the previous quarter and fell below the quarterly target by D47.4 million. The fall in non-tax revenue is explained mainly by the substantial decline in government services and charges, and telecommunications license by 65.7 percent and 15.4 percent respectively.

Grants rose sharply to D104.8 million in the fourth quarter of 2007 compared to D7.0 million in the corresponding quarter of the previous year attributed mainly to the increase in grants.

Total Expenditure and Net Lending

During the period under review, total expenditure and net lending rose to D1.1 billion or by 24.3 percent from the previous quarter and exceeded the amount projected for the fourth quarter by D1.6 million. Overall expenditure and net lending rose markedly by 74.3 percent on annual basis.

Current expenditure in the fourth quarter of 2007, contracted to D606.7 million or by 4.4 percent from the previous quarter. Current payments exceeded the projections by D73.6 million or 12.1 per cent. From quarter four, 2006, current expenditure increased by 18.4 percent.

Capital expenditure as at end-December 2007 stood at D423.4 million, compared to D176.1 million in the previous quarter and D58.4 million a year ago. Development expenditure was financed through external

sources in the form of loans (D204.9 million) and grants (D104.8 million). Government Local Fund Capital expenditure accounted for D113.6 million.

The overall budget balance (commitment basis) including grants recorded a deficit of D283.2 million during the review quarter. The overall budget balance (commitment basis) excluding grants was a deficit D388.0 million. However, the primary balance registered a surplus of D98.4 million.

	2006		2007					
	Q4	Q3	Q4	Q4 Proj	Annual percent change	Quarterly percent change	Above(+) Below(-) Target	Percent proj.
Expenditure and Net Lending	633.1	887.9	1103.6	1,102.0	74.3	24.3	1.6	100.1
<i>Current Expenditure</i>	<i>574.7</i>	<i>711.8</i>	<i>680.3</i>	<i>606.7</i>	<i>18.4</i>	<i>-4.4</i>	<i>73.6</i>	<i>112.1</i>
Personnel Emoluments Gross Wages, Salaries & Allowances	202.4	152.3	192.4	181.8	- 4.9	26.3	10.5	105.8
Interest	173.1	162.3	173.2	191.2	0.1	6.7	-18.0	90.6
External	176.8	229.6	176.7	211.6	- 0.1	-23.1	-34.9	83.5
Domestic	42.6	98.0	28.9	57.8	- 32.2	-70.5	-28.9	50.0
Capital Expenditure and Net Lending	134.2	131.6	147.8	153.8	10.1	12.3	-6.0	96.1
<i>Capital Expenditure</i>	<i>58.4</i>	<i>176.1</i>	<i>423.4</i>	<i>484.0</i>	<i>625.0</i>	<i>140.4</i>	<i>-60.6</i>	<i>87.5</i>
Externally Financed	<i>58.4</i>	<i>176.1</i>	<i>423.4</i>	<i>466.0</i>	<i>625.0</i>	<i>140.4</i>	<i>-42.6</i>	<i>90.8</i>
Loans	26.4	139.8	309.7	401.6	1,072.9	121.6	-91.9	77.1
Grants	19.4	112.2	204.9	175.9	956.5	82.6	29.0	116.5
	7.0	27.6	104.8	225.7	1,394.9	280.4	-120.8	46.5

Financing

The budget deficit (cash basis) including grants amounted to D283.1 million and was financed from foreign and domestic sources. External financing (net) totaled D275.9 million while domestic financing amounted to D7.2 million.

PART II

Developments in the International Economy

Macroeconomic developments in the global economy continue to be dominated by the crisis in the US subprime mortgage market and its implications for financial markets; the resurgence of global inflation; the recession fears in the US economy and its impact on the rest of the world; and the sharp increase in energy and food prices.

Both headline and core inflation have drifted upward in both advanced and emerging economies driven by food and energy prices. The inflation impact of food price increases is of particular concern to emerging and developing countries. In virtually all countries, food prices have increased in 2007 and the extent to which they have increased varies considerably country by country. The factors behind the increased prices include higher input costs, higher transportation costs (both a consequence of increasing fuel prices), civil unrest in a few countries, and above all, agro-climatic conditions.

These developments in the global environment led to a downward revision in global output growth projection. World economic growth is projected, by the International Monetary Fund (IMF) to slow to 3.7 percent in 2008, 0.5 percentage point lower than what was previously forecasted. For 2009, global output growth is projected to remain unchanged from its 2008 level.

The outlook for the global economy encompasses a number of uncertainties and downside risks. Major concerns relate to the turbulence in the financial markets, the surging oil and commodity

prices and increasing risk from disorderly unwinding of the global imbalances.

The US economy slowed down to a standstill in the fourth quarter of 2007. GDP growth slowed to 0.6 percent (annualized rate), from 4.9 percent in the third quarter, due largely to the sharp contraction in residential investment, reduced consumer spending, contraction in non-residential fixed investment and the decline in industrial production.

Although inflation is rising and the euro continues to appreciate reaching yet a new record high against the dollar, the Euro-zone economy's deceleration was moderate. Euro-area GDP growth in the fourth quarter slowed to a quarterly increase of 1.5 percent. Consumer and business sentiment deteriorated in response to the financial sector crisis and the impact of rising oil and food prices. Core inflation in the Zone remained at 2.3 percent against a background of moderate wage increases. It is expected that headline inflation will decelerate to within the ECB's target.

The Governing Council of the European Central Bank continued to keep the minimum bid rate unchanged at 4 percent.

The UK economy continued to expand at a solid pace, with real GDP at 2.5 percent on an annualized basis in the fourth quarter of 2007, slightly lower than the previous quarter. Consumer sentiment remained firm; however, activity in the housing market and consumption growth has eased.

In Emerging Asia, economic activity continued to expand at a sustained pace in most of Asia's large economies. The strength of domestic demand combined with rising food and energy prices have

contributed to rising inflationary pressures in a number of countries within the region.

India's GDP growth is expected to moderate to 8.7 percent in 2008, down from 9.6 percent in 2007. Data released by Central Statistical Organization revealed that industrial production grew by 7.6 per cent in December 2007, much lower than the 13.4 percent growth in December 2006, reflecting the impact of higher interest rates and high base effect.

Recent economic data in Japan indicated that the economy is experiencing a slowdown. While exports continued to grow supported by strong demand from Asia and Europe, corporate sentiment fell to a four-year low. Real GDP grew by 0.9 percent quarter-on-quarter in the fourth quarter of 2007.

In **Latin America**, domestic demand remained as the main driving force of economic activity in Latin America. Economic activity grew by a robust 5.6 percent in 2007, slightly stronger than in 2006.

In the Middle East, the region had not been affected much by the turmoil in the global financial market as growth remained strong. Regional growth reached 5.8 percent in 2007, spurred by trade and financial spillovers from oil-exporting countries, as well as domestic factors. Growth for the region is projected to rise to over 6 percent in 2009. Inflationary pressures pose a challenge to the region. Inflation is spurred by strong domestic demand, rising food prices and higher rents on the back of housing shortage.

In Sub-Saharan Africa, economic activity continued to expand at a steady pace. Real GDP growth was 6.8 percent in 2007 aided by favorable international conditions such as strong commodity prices,

greater flows of capital, debt relief and a substantially improved domestic policy environment. Inflation for the region remained well contained reflecting improved food supplies, restrictive monetary policy, exchange rate appreciation in response to capital inflows and lower bank financing of fiscal deficits. Growth prospect for 2008 is estimated to decline modestly.

The **Ghanaian** economy continued to remain robust with GDP growth estimated at 6.2 per cent in 2007. This robust growth is attributable to growth in exports, electricity consumption, deposit money banks' credit to the private sector, increased tourists arrivals, cement sales, and VAT collections, whilst the pace of manufacturing and port activities slowed down slightly.

Consumer price inflation increased to 12.7 percent in December 2007, signalling underlying pressures from the energy crisis and generally rising food and utility prices in the economy. Also, the Bank's measure of core inflation (defined to exclude energy and utility items) increased to 9.4 percent in December 2007 from 8.2 percent at the end of September.