1. Overview of Financial System

The Bank of Ghana (BoG), the nation’s central bank, was formally established by the Bank of Ghana Ordinance No. 34 on 4 March 1957, just two days before the declaration of political independence. The bank has full autonomy over monetary policy. In addition to the other main functions of a central bank, the Bank of Ghana’s Monetary Policy Committee (MPC), established in 2002, is responsible for setting monetary policy. The overriding goal of monetary policy in Ghana is price stability. Within the Bank of Ghana’s monetary management framework, there exist three basic targets: the ultimate or final target (inflation), the intermediate target (money supply) and the operating target (reserve money). Over the past seven years, the Government has been implementing a series of positive economic reforms. This period has been well supported by stronger foreign exchange inflows from buoyant cocoa and gold exports, increased remittances from expatriates (50% of GDP) and heightened donor support that has resulted in external debt relief. The BoG has been pivotal in the move to maintain a stable macro-economic environment, a noticeable impact in the economy being the reducing rate of inflation. The rate of inflation had fallen, from 40% in 2005 to 10% at the end of 2006, with an ongoing target to achieve single-digit inflation by 2007. As a result of these economic reforms, Ghana has increasingly been cited by the international community as one of the best and most conducive sub-Saharan African countries (not including South Africa) to conduct business in.

Bank and Non-Bank Financial Sector

Ghana's financial system is dominated by the banking sector, with 20 commercial banks and only one merchant bank. Five of the 20 banks are foreign-owned. In addition, there are also three state-owned development banks and over 100 rural banks serving the micro-finance sector.

The banking sector is highly concentrated, with the largest state-owned commercial bank, Ghana
Commercial Bank (GCB), and three foreign-owned commercial banks jointly accounting for over 60% of all banking assets and deposits. The BoG supervises both banks and non-bank financial institutions. In light of recently improved macro-economic conditions, there has been a good extension of banking system credit to economic operators: bank credit to public and private institutions increased by 37.6% in the 12 months to January 2007. The financial sector has also continued to deepen its operations. February 2003 saw the introduction of the Universal Banking Business License (UBBL) that is to engender more competition in the banking industry. Under this licensing law, banks must have a minimum net worth of GHC 70 bn (USD 8 mn), excluding statutory reserves. New banks are also expected to have paid-up capital of GHC 70 bn (USD 8 mn).

The insurance sector in Ghana is comprised of two life insurance companies, (including one state-owned company), three general insurance companies (one state-owned), 11 private life and general insurers, and two re-insurance companies. Life insurance accounts for less than 10% of premiums. The insurance sector is supervised by the National Insurance Commission.

Capital Markets
Capital markets are developing quickly in Ghana and are centred on the Ghana Stock Exchange (GSE) which started operations in 1990. As of March 2007, the GSE had some 32 listed companies, with a market capitalisation of approximately GHC 112 trillion (USD 12 bn). The GSE sets the rules and regulations for companies and other entities seeking to be publicly listed on the GSE. The GSE is governed by a Council (Board of Directors) with representation from licensed dealing members, listed companies, banks, insurance companies and other eminent and competent persons of the Ghanaian finance and public service sectors.

The bond market is nascent, and there has been a recent impetus on the part of the BoG and Ministry of Finance and Economic Planning (MoFEP) to change this, by promoting its development. The government is the main issuer of debt securities. As of December 2006, total outstanding government bonds stood at GHC 2,400 bn (USD 260 mn).

Bonds listed on the local exchange comprise of longer-dated government securities (maturities of two years and above) and a few corporate bonds (including issues under HFC Bank shelf registration programme and Standard Chartered Bank MTN Programme).

The legal framework of the capital markets is defined by the Securities Industry Law of 1993 (amended in 2000) and the Securities and Exchange Commission (SEC) Regulations (2003). The SEC acts as the primary regulator of capital market activities in Ghana. The GSE has its own separate regulations that govern admissions to listing securities on the stock exchange. The GSE has signed Memoranda of Understanding with the Kenyan Stock Exchange and the Nigerian Stock Exchange for cross-border listing of securities quoted on their markets.

2. Fixed Income Markets

Government Securities
Weekly auctions are held by the Bank of Ghana on Fridays for the sale of BoG treasury bills and bonds to 17 primary dealers, known as Government Securities Dealers. There is no set issuance calendar for the longer-term treasury bonds. Issuance of treasury bills is via a multiple price auction while treasury bonds are issued via a uniform price auction.

The following BoG securities are issued in the debt market:
• treasury bills (91-, 182-day)
• 1-year note
• 2-year fixed rate
• 2-year floating rate
• 3-year fixed rate
• 3-year floating rate
• 5-year fixed rate (Since 2007)

The market has been very illiquid, with major activity occurring in money market instruments. The 2-year
floating rate note has an interest rate that is tied to the 91-day T-bill rate, while the 3-year floating note has an interest rate as a spread over the 182-day T-bill rate. These notes are an offspring of the Government of Ghana Index-Linked Bonds (GGILBs) that were introduced in 2001 as part of the aim to convert short-term liabilities into longer-term obligations. The GGILBs are being phased out by the new 2- and 3-year fixed and floating rate notes.

The 5-year bond was issued for the first time in early 2007, and is the government’s longest dated security. This issuance is part of the Government’s plan to extend the government yield curve to provide longer-dated securities in the market.

With reduced inflation, interest rates on treasury securities are now following suit, coming down significantly to match inflation expectations. There has also been a significant decline in yields on 2- and 3-year bonds since the BoG cut its prime rate by 200 basis points to 12.5 percent at the end of 2006.

Non-Central Government Issuance

Corporate bond issuance in Ghana is gaining ground, although issuers still remain limited in number. Pending the amendment of the existing Act that restricts borrowings by municipalities, municipal bonds are also scheduled to be launched in the near future to create access to cheaper and long-term funding for municipal authorities. The table below gives details of the outstanding corporate securities in the bond market.

### CORPORATE BONDS

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Issue Year</th>
<th>Industry</th>
<th>Amount (mn)</th>
<th>Tenor</th>
<th>Coupon (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays Bank of Ghana</td>
<td>2006</td>
<td>Banking</td>
<td>GHC 100,000</td>
<td>10</td>
<td>14%</td>
</tr>
<tr>
<td>Standard Chartered Bank Ghana</td>
<td>2005</td>
<td>Banking</td>
<td>GHC 35,000</td>
<td>3</td>
<td>TB +2.00%</td>
</tr>
<tr>
<td>Standard Chartered Bank Ghana</td>
<td>2005</td>
<td>Banking</td>
<td>GHC 91,500</td>
<td>Undated</td>
<td>TB +3.00%</td>
</tr>
<tr>
<td>Home Finance Company Ltd. (Tranche H)</td>
<td>2004</td>
<td>Mortgage Finance</td>
<td>USD 2.50</td>
<td>5</td>
<td>5.00</td>
</tr>
</tbody>
</table>

Secondary Market

Secondary market trading of government securities used to take place only over-the-counter through a network of primary dealers. However, in 2006, the Government, aware of the shortcomings of an illiquid bond market, listed all outstanding 2- and 3-year BoG bonds on the GSE, both floating- and fixed-rate issues. The new 5-year bond was also listed on the Exchange, all in a bid to enhance the secondary trading of these bonds, to ensure liquidity. This has been viewed as a
positive development in the market, especially since the
aim of the Government is to provide benchmark securities
for corporate issuers, and promote a deepening of the
market. The listing would also provide enhanced access
for investors to bid for securities, rather than submitting a
bid through a licensed dealer. Workshops and seminars
have been held by authorities geared towards equipping
all authorized primary dealers and Licensed Dealing
Members of the Exchange with bond market fundamental
such as bond pricing, issuance dynamics and trading.

Clearing and Settlement
Clearing and settlement is still largely done by manual
processes although steps are being taken by the
Government to introduce a Real Time Gross Settlement
(RTGS) system. A central depository system has
been implemented for government securities and will
soon be extended to cover all securities listed on the
Ghana Stock Exchange after an appropriate enabling
law is passed. Settlement of government securities is
at T+1 and through central bank clearing. GSE-listed
stocks are settled manually at T+3.

3. Foreign Exchange
The Ghanaian Cedi (GHC) is an independent, free-
floating currency. There is occasional central bank
intervention in the event of excessive volatility. In
December 2006, the capital account was partially
liberalized as a result of the passing of the new Foreign
Exchange Bill. The approval of the central bank is no
longer required to repatriate funds out of the country,
although it still needs to be notified of such actions.
Furthermore, foreigners and non-residents are now
allowed to hold foreign exchange accounts in Ghana.

The GHC has been on a depreciating trend for the
past few years. It has, however, maintained a degree
of stability since 2004, around GHC 9200 / USD 1,
due to the positive impact of the Government’s fiscal
discipline and increased inflows of foreign exchange
remittances from Ghanaians abroad and NGOs,
which have been in excess of USD 4 bn.

In 2006, the BoG announced that it would re-
denominate the Cedi by July 2007, and replace it with
a new Ghana Cedi that will be valued at 10,000 old
Cedis = 1 new GHC.

4. Derivatives
Ghana does not have a fixed income derivatives
market. Enhanced liquidity in the foreign exchange
market could lead to a growth in foreign exchange
derivative instruments in the near term.

In October 2006, the African Development Bank (AfDB)
became the first supranational
borrower to issue a bond
denominated in Ghanaian
Cedis. This two-year bond,
worth USD 45 mn (equivalent
of GHC 414.9 bn) linked to the Ghanaian Cedi,
was hugely successful. On the back of strong
foreign investor demand, the AfDB was able
to upsize the issue by 50%. This transaction
brought significant visibility to the positive
developments in the Ghanaian market and
economy as a whole.
The AfDB is also in the process of issuing
cedi denominated bonds in the local market,
which would be able to provide long-term local
currency financing to support development
projects through direct project lending or
lines of credits to financial institutions. Such a
transaction simultaneously aims to deepen the
bond market in Ghana.
5. Participation of Foreign Investors and Issuers

Current regulations allow foreigners to invest in securities listed on the Ghana Stock Exchange without exchange control restrictions. In December 2006, the new Foreign Exchange Act 2006 (Act 723) came into effect, allowing non-residents and foreign investors to bid for securities issued by the Government of Ghana. Foreign investors and non-residents are allowed to invest in capital market instruments of a tenor of three years and above. To facilitate this, non-residents are also allowed to maintain foreign currency accounts with local banks, which can be credited with transfers in foreign currency from abroad or other foreign currency accounts. This development resulted in a strong foreign investor participation level in the BoGs new 5-year bond issue in January 2007.

6. Investment Taxation

A withholding tax rate of 10% is applicable to interest income. Dividends are subject to a withholding and final tax of 10%. A temporary exemption on capital gains on securities listed on the Ghana Stock Exchange is also in force, which is expected to last until 2010. Ghana has double tax treaties with the United Kingdom, France, South Africa and Italy. Other tax obligations include: corporate tax at 25%, tax on dividends at 7.5%, capital gains tax at 10% and VAT at 15% (not levied on non-Ghanaian investors).

Venture capital companies receive a 5-year tax holiday. Financial institutions investing in venture capital subsidiaries may deduct 100% of their equity investment from their taxable income for the year of investment.

7. Key Contacts

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