

SUMMARY REPORT

THE NEW VERSION OF AGI BUSINESS BAROMETER

The AGI Business Barometer (AGI BB) has been revised to strengthen its statistical features and to improve the visibility of the business indicator as a measure of business confidence. The review focused on the following, among others:

- » Modifying questionnaire for the Business Barometer Survey
- » Modifying sample structure for Business Barometer Survey
- » Assigning weights to sample sub-units to ensure a fair representation.

A few more economic indicators, which hitherto did not feature in the survey, have been included to help assess the country's export trade and employment growth. Hence, the export index and employment expectations indicator are to complement the AGI Business Barometer Indicator.

BUSINESS CONFIDENCE DIPS STEEPLY IN Q1, 2014

Businesses often begin the New Year with a high sense of optimism, regardless of the potential obstacles to doing business. In contrast, the AGI Business Barometer for Q1, 2014, recorded a significant dip of 90.13 in business confidence index, representing one of the lowest in almost 4 years.

The challenges facing businesses in 2013 became more prominent in 2014. Inflation inched up steadily to 14.5% to close the quarter. Cedi depreciation against the US dollar stood at 17.6% by end of March 2014. While businesses were yet adjusting to the effect of the additional 2.5% VAT introduced in January, the Bank of Ghana (BoG) directives on Foreign Exchange Accounts and Foreign Current Accounts came into force, putting most businesses under pressure. Local manufacturers who import raw materials were severely hit by foreign exchange losses and their margins were affected by the appreciation of input prices; utility prices and rising transportation costs.

Some businesses have had to absorb some of the newly introduced taxes to maintain their market shares and to remain competitive. Addressing these constraints remains central to improving the competitiveness of local businesses going forward.

Cedi depreciation and the multiplicity of taxes stood out as two major concerns that run through the feedback from respondents.

AGI believes it is imperative for Government to close existing loopholes and leakages in the tax system whilst speeding up efforts to enhance tax revenue mobilization to generate the needed revenues rather than introducing new taxes.

THE AGI BB INDICATOR (BBI)

The Business Barometer Indicator (BBI) is an AGI proprietary tool that measures the level of confidence in the business environment and predicts short-term business trend. It simply expresses the state of the business climate numerically in one figure (index) with 100 as the base index.

It is calculated out of "current" business mood and "expectations" for the future.

Considering figure 1 below, the decline in confidence index from 102.07 in Q4, 2013 to 90.13 in Q1, 2014 represents the most significant dip in business confidence in almost the past four years. The data also displays evidence of the trend over the four-year period, with Q1 of 2010 recording the lowest confidence index.

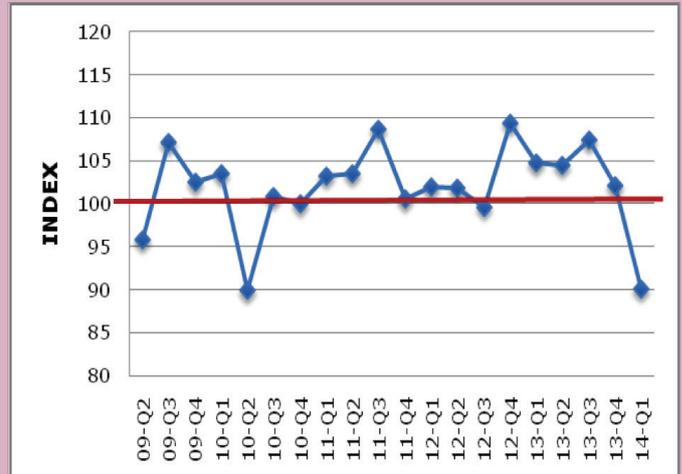


Fig. 1 AGI BBI

If we confine our attention to the time lag between Q1, 2013 and Q1, 2014, the trend is generally downward but not statistically significant, except for Q1, 2014 and Q3, 2013 where the additional megawatts of power to the national grid and the conclusion of the eight-month election petition at the Supreme Court brought hope to the business community. The downward trend suggests that business confidence has not seen an improvement.

Noted for experiencing delayed payments on jobs done, the Construction sector recorded the lowest index of 81.38

Figure 2 below presents a combination of the business indicator index in relation to the expectation and current situation indices, using a base index of 100.

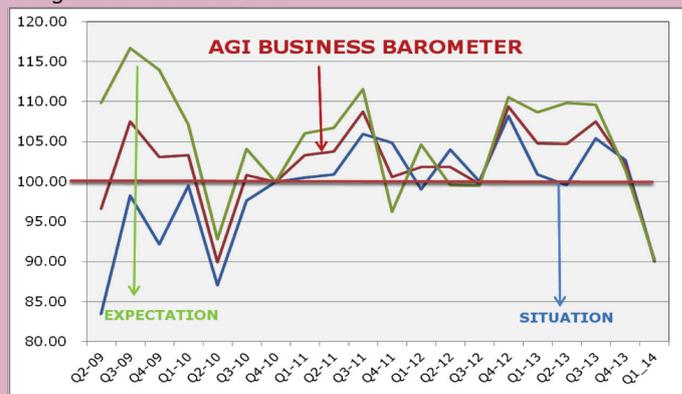


Fig. 2 AGI BBI

Overall Perception of Business Performance

The survey asked C.E.Os to rate their business performance in Q1. About 1 in 3 said business had worsened in Q1, 2014

compared to the previous Quarter.

It also reflects a spillover of the challenging economic situation from Q4, 2013 to 2014. Close to 19% said they experienced an improvement in Q1. The C.E.Os think the current economic situation poses a serious threat to the long-term viability of businesses if this situation persists

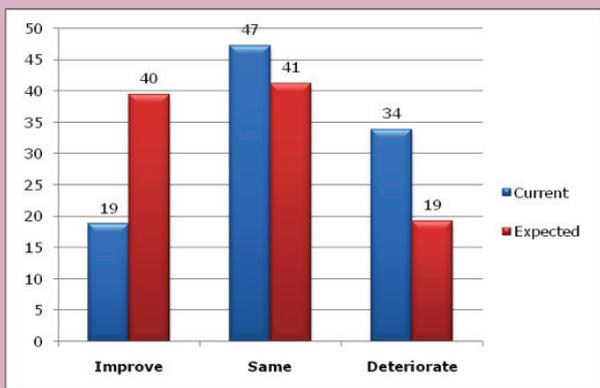


Fig. 3 Overall Business Performance for Q1, 2014

While 41% of Captains of Industry were indifferent about business prospects, 40% are optimistic that the business climate will improve beyond the normal. In effect 61% do not expect an improvement in the business climate within the next six months.

From recent Business Barometer reports, Q4 of 2013 presented better prospects for business and was rated better than Q1 of, 2014. This comparison brings to light the downward trend in business confidence for the past six months.

Employment Expectation

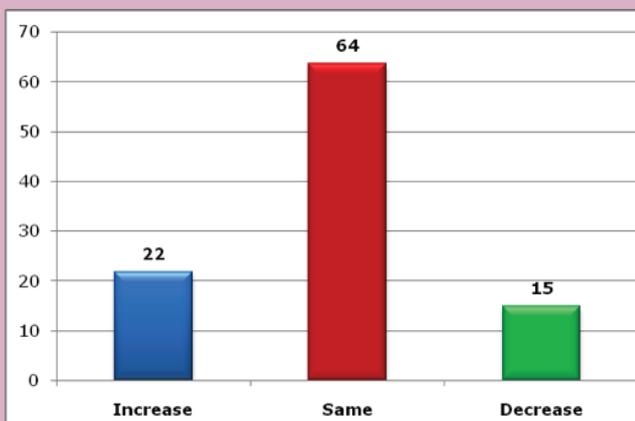


Fig. 4 Employment expectation

From figure 4, a good majority (64%) of the respondents said employment levels will remain same while about 15% were certain employment figures will decrease. This does not give a good picture of the prospects for employment in the next six months. Only 22% foresee an improvement in employment figures.

Export Situation

The survey explored respondents' views on contemporary business issues of interest such as the current situation and expectations for export trade.

Out of the number surveyed, 21% were into exports. 48% of these exporters believe export trade has improved for Q1, 2014 while 11% said their exports deteriorated within the same period.

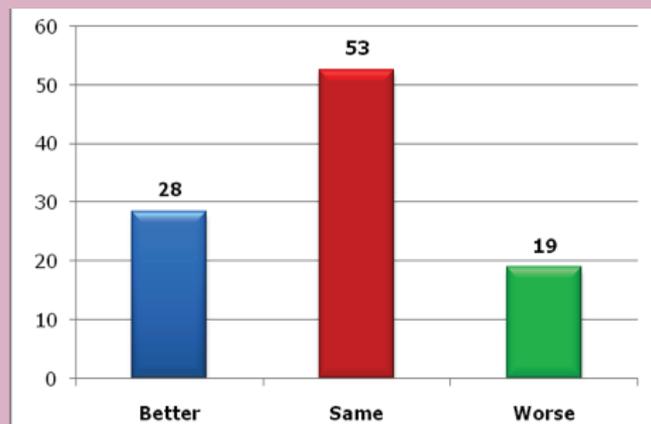


Fig. 5 Export situation

Export Expectation

Over fifty percent said their export volumes will remain same since they are uncertain of the export situation in the next three months. Only 28% of the exporters perceive an increase in their exports.

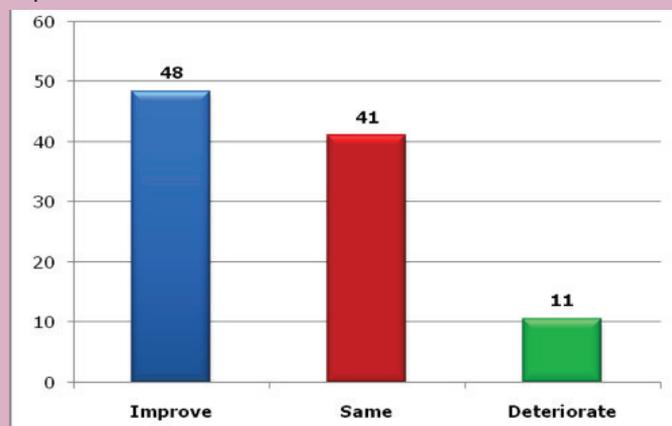


Fig. 6 Expectation of exports

Imports far exceed exports, exerting so much pressure on the cedi and it is not therefore surprising that the cedi continues to depreciate against the world's major trading currencies.

Bank of Ghana Directives on Foreign Exchange

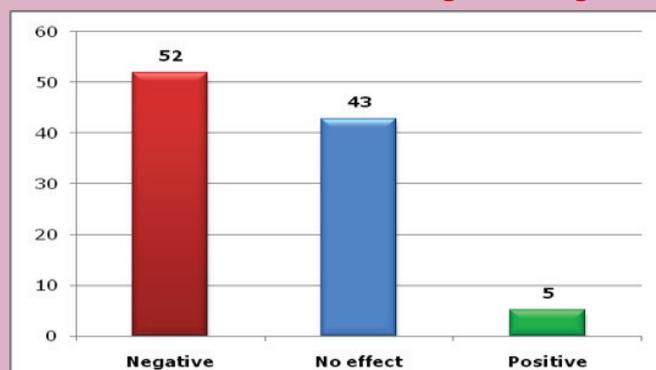


Fig. 7 Effect of BoG rules

On the whole, the new Bank of Ghana rules did not favour majority of businesses as indicated by the 52% who responded negative.

Out of the total surveyed, the negative effect of the BoG rules was most felt among the exporters of which 65% testified to. As many as 59% of Manufacturers were affected by the new BoG forex rules, representing the worst affected sector in the survey.