

RAPID DEPRECIATION OF THE CEDI CAUSES SUSTAINED INCREASE IN THE LEVEL OF TAXATION

The rapid depreciation of the cedi over the first quarter of 2012 has adversely impacted on the level of taxation through continuous increases in import duties, according to the first quarter of the 2012 AGI Business Barometer. This is due to the fact that duties on imported raw materials are calculated in foreign currencies such as the US dollar. Consequently, any time the cedi depreciates, manufacturers pay more duties at the same level of duty rates. This is a major concern to industry as increase in taxes raise cost of production of local producers.

OVERALL PERCEPTION OF BUSINESS PERFORMANCE

Chief Executive Officers of the business community in Ghana are quite optimistic about the performance of their businesses going into the second quarter of 2012. This was revealed by the first quarter of the AGI Business Barometer, as 62.8% of the respondents expect their businesses to perform better in 2012 quarter two (2012 Q2) than 2012 Q1 (see Fig. 1, for details). They attributed this optimism to an expected increase in their market share; availability of raw materials; and improved staff efficiency.

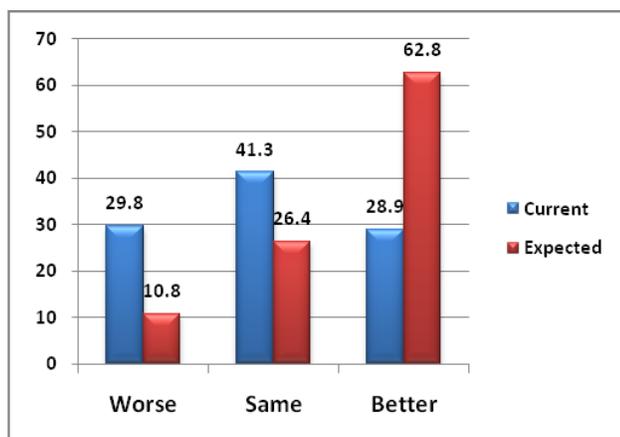


Fig. 1 Overall Business Performance for Q1 2012

However, about 11% of the respondents anticipate their enterprises to perform poorly in 2012 Q2 compared to that of 2012 Q1. Low purchasing power of consumers; high cost of raw materials; and depreciation of the cedi are the main reasons for their pessimistic posture.

OVERALL MAJOR CHALLENGES

For the first time over the last eight quarters, High level of taxation emerged as the topmost challenge facing business operators. High utility prices and depreciation of the cedi were ranked second and third respectively. It is worth noting that, for the first time

in the past two years, access to credit (ranked 4th) did not feature in the top three challenges. Poor power supply which is the greatest mover on the top 10 challenges ladder was ranked 5th (did not feature in the 2011 Q4). This attests to the regular power outages and power fluctuation experienced by industry over the last four months.

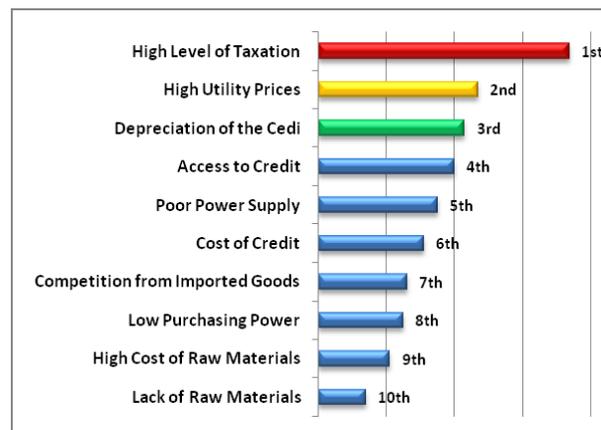


Fig. 2 Overall Challenges for Q1 2012

On the other hand, delayed payment did not feature in the top 10 challenges for the first time in several quarters. Interestingly, some companies expressed concern about their inability to get some key raw materials (i.e. lack of raw materials; ranked 10th) for the first time over the last six quarters. This development is worrying because high level of taxation; high utility prices; high cost of raw materials; and lack of raw materials all fuel cost of production. There is the need for creative and innovative measures to halt the fast depreciation of the cedi which is the main cause of the deterioration of most of the above challenges.

CHALLENGES BY SIZE

Table 1: Top 3 Challenges by Size

Size	Challenges		
	1 st	2 nd	3 rd
SMEs	High Level of Taxation	Access to Credit	High Utility Prices
Large	High Utility Prices	High Level of Taxation	Depreciation of the Cedi
African Giants	High Utility Prices	Poor Power Supply	Depreciation Of the Cedi

Table 1, shows that the common concern for SMEs; Large-scaled Enterprises; and African Giants is High Utility Prices. The PURC as a matter of urgency should not sanction any increases in utility tariff that is not matched by improved quality of both power and water supplies.

CHALLENGES BY SECTOR

Figures 3, 4, 5 and 6 depict major challenges across sectors. Access to credit maintained its position as the main obstacle to growth of operators in the

Agricultural Sector, in the 2011 Q4 and 2012 Q1. Depreciation of the cedi which was ranked 10th (did not feature in the top ten of 2011 Q4), has also impacted negatively on the sector through high duty paid on Agricultural inputs. This is the reason why High level of taxation was ranked second most important obstacle confronting the sector.

AGRICULTURE

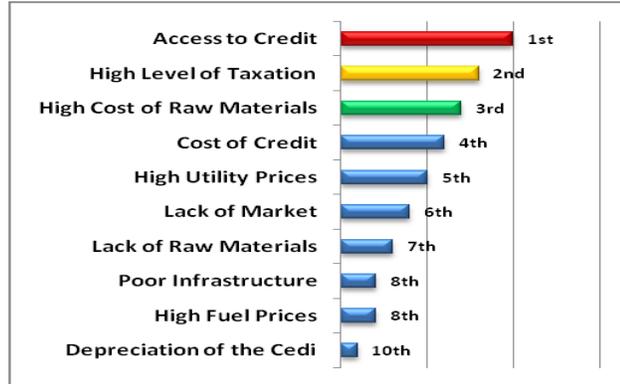


Fig. 3 Challenges Facing the Agriculture Sector

Access to credit, Lack of contract and Unfair award of contract were identified as the top three challenges confronting entrepreneurs, operating in the Construction Sector. For the first time in the last four quarters, Delayed payment did not feature in the top ten of the sector (see Fig. 4 for detail results). This is a healthy development for the operators in the sector.

CONSTRUCTION

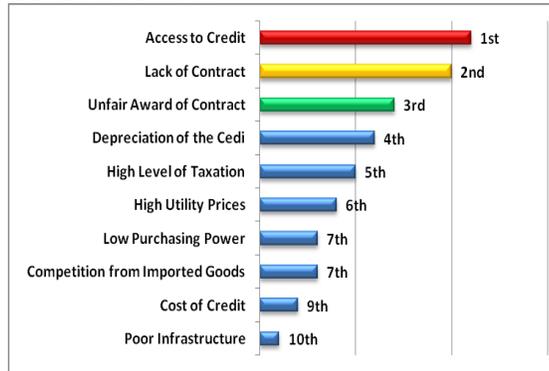


Fig. 4 Challenges Facing the Construction Sector

The Manufacturing Sector recognized Competition from imported goods, Depreciation of the cedi and High utility prices as the top three factors limiting development of the sector.

MANUFACTURING

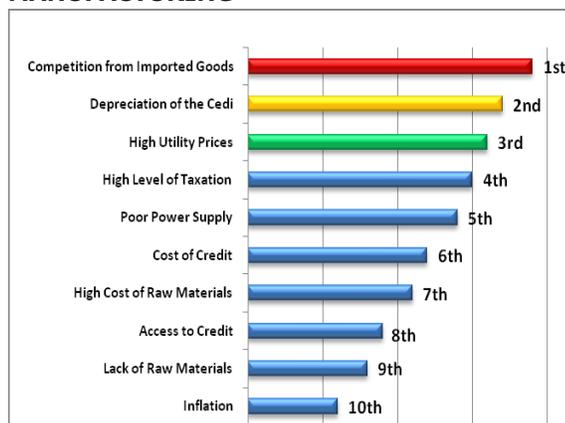


Fig. 5 Challenges Facing the Manufacturing Sector

It is interesting to note that, Poor power supply also featured prominently (i.e. 5th) as a major constraint to growth. Inflation also appeared in top ten for the first time in the last four quarters (see Fig. 5, for details). It is important for managers of the economy to put measures in place to stabilize the cedi in order to prevent inflation surging up again.

SERVICE

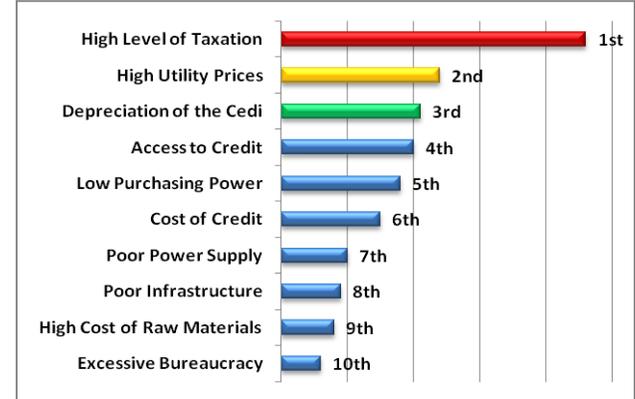


Fig. 6 Challenges Facing the Service Sector

High level of taxation still remains the chief barrier to expansion of businesses operating in the Service Sector, over the last two quarters. High utility prices and Depreciation of the cedi were ranked second and third, respectively. Poor power supply also featured in the 5th position, confirming the concern of industry that, quality of power supply has deteriorated over the last four months. Again, Excessive bureaucracy featured in the top ten (10th position) of the Service Sector for the first time in several quarters (see Fig. 6 for details).

THE AGI BB INDICATOR (BBI)

The AGI BBI measures the level of confidence in the business environment and predicts short-term business trend. It simply expresses the state of the business climate in one number, ranging between +100 and -100. It is calculated out of "current" business mood and "expectations" for the future.

2012 Q1 recorded a positive indicator of 24.0 which indicates a sharp drop in business expectation over 2011 Q4 (which recorded an indicator of 30.0). This is an indication that the confidence level of the business community in the business environment has dwindled going into the quarter two of 2012.

Fig. 7 AGI BBI

