

**SUMMARY REPORT**

**BUSINESS CONFIDENCE WORSENS IN Q2, 2014**

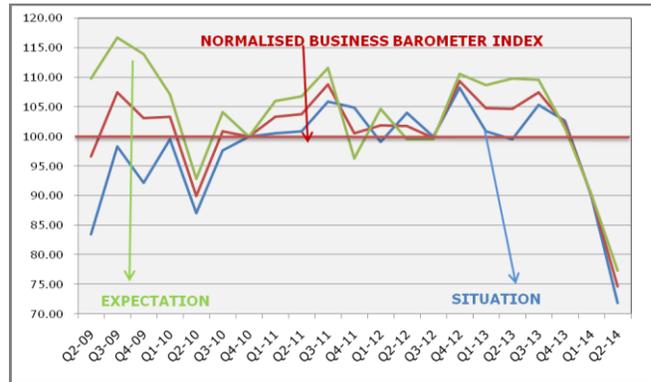
Businesses sentiment has worsened very sharply, according to the latest AGI Business Barometer survey for Q2, 2014. From an index of 90.13 in Q1, business confidence dropped dramatically to 22.42 in Q2, 2014.

Consistent with current developments in the economy, Cedi depreciation, Availability of power supply and the Multiplicity of taxes emerged as the top three challenges businesses faced in Q2. These did not come as a surprise. Measures by the Bank of Ghana to control the cedi depreciation against major trading currencies seemed to have had little impact. Foreign earnings that would have been repatriated are likely still being kept in offshore accounts.

Inflation had earlier been dismissed as a blip but rose to 15% to end Q2, making it the highest rate in the last 4 years. As uncertainty lingered over the entire business climate, planning into the future remained a major hurdle for many Captains of Industry. The CEOs said they have had to contend with more of contingency measures to keep business running. Short-term measures by Government to stabilize the current economic situation are Industry's immediate concern.

**THE AGI BB INDICATOR (BBI)**

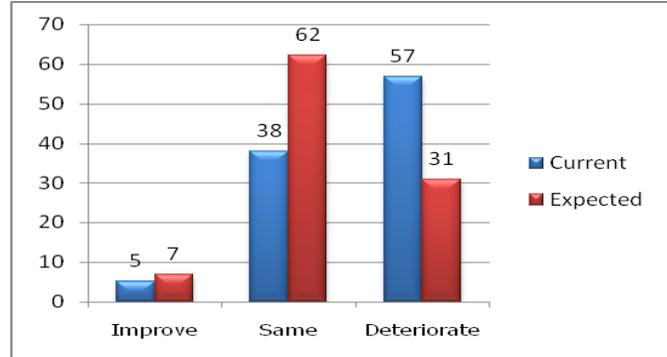
The Business Barometer Indicator (BBI) is an AGI proprietary tool that measures the level of confidence in the business environment and predicts short-term business trend. It simply expresses the state of the business climate numerically in one figure (index) with 100 as the base index. It is calculated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



**Fig. 2 AGI BBI**

What is of major concern is the current dip between lag value 90.13 in Q1, 2014 and Q2, 2014. This trend reinforces some of the earlier doubts about the business climate. What also captures attention is the dip in Q2, 2010 where Industry had serious challenges with utility tariffs including the delayed payments Contractors suffered.

**Overall Perception of Business Performance**



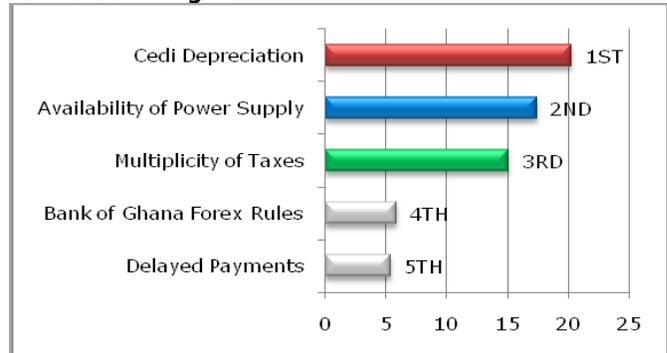
**Fig. 3 Overall Business Performance for Q2, 2014**

Out of the CEOs interviewed, 38% believe the business climate has not changed between Q1 and Q2, 2014 while a good majority (57%) reported a decline. In contrast, 7% are optimistic the business climate will improve in the next 6 months.

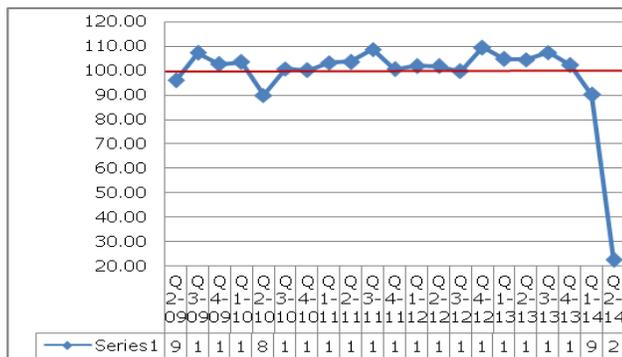
Overall, business outlook is not likely to improve in the next six months according to 93% of the respondents.

This barometer comes with a  $\pm 4$  margin of error at the 95% level of confidence.

**Overall challenges**



**Fig. 4 Overall challenges**



**Fig. 1 AGI BBI**

Figure 1 reflects business sentiments captured over the last five years. Starting at an index of 95.5 business confidence has fluctuated between Q3, 2009 and Q3, 2013. This leveled out a bit between Q3, 2010 and Q3, 2012. Even though the downward trend persisted, Q2, 2014 experienced an exception; plunging to a low point of 22.42. Signs of recovery don't look immediate.

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

Several businesses continued to grapple with pressure from the cedi depreciation as this impacted on all transactions. Prices shot up while the fall of the cedi persisted.

The availability of power supply was more of a challenge to businesses compared to the electricity tariffs that saw an upward adjustment towards the end of Q2. Businesses were hit by another cycle of load shedding in Q2. April saw the extension of load shedding schedules on account of power generation shortages. Between availability of power and cost of utility, it is obvious that businesses will sacrifice cost to have power to run their business.

The cedi equivalent of taxes on imports worsened the impact on businesses due to the depreciation and the fact that these transactions are tied to the dollar. The proposed VAT on financial services also triggered much agitation among the business community.

Delayed payments featured prominently as a major challenge to especially contractors who had completed projects and are awaiting payment. Besides the delay, the losses on account of the cedi depreciation have been another key concern in Q2.

Table 1: Challenges by sector

	1st	2nd	3rd
Manufacturing	Availability of power supply	Cedi depreciation	Multiplicity of taxes
Service	Cedi depreciation	Multiplicity of taxes	Availability of power supply
Agric.	Cedi depreciation	Availability of power supply	Multiplicity of taxes
Construction	Cedi depreciation	Availability of power supply	Multiplicity of taxes

Source: Field data

On sector basis also, cedi depreciation ranked first in order of magnitude followed by Availability of power supply and Multiplicity of taxes for the Service, Construction and Agricultural sectors. Availability of power supply was more of a challenge to Manufacturers than the Cedi depreciation.

Table 2: Challenges by size

	1st	2nd	3rd
SME	Cedi depreciation	Availability of power supply	Multiplicity of taxes
Large	Cedi depreciation	Availability of power supply	Multiplicity of taxes
African Giants	Cedi depreciation	Availability of power supply	Multiplicity of taxes

Source: Field data

Interestingly, the top three challenges were ranked in the same order of magnitude by the various sizes of business as shown in Table 2.

### Employment Expectation

Chances of employers hiring additional staff worsened by about 15% in Q2. In Q1, 78.5% of businesses said they did not expect an improvement in employment numbers. This number shot up to 93% in Q2.

The 7% who are likely to employ more operate largely in the Service sector.

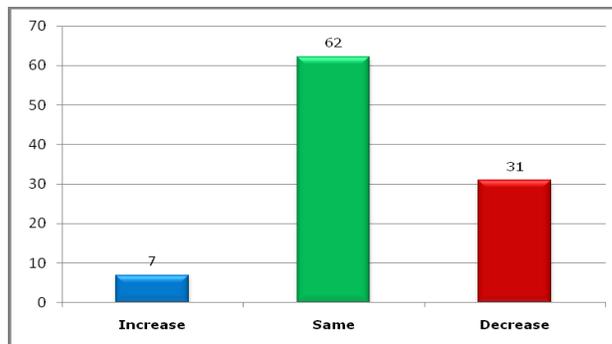


Fig. 5 Employment expectation

### Export Situation

Views on recent business issues of interest such as the current situation and expectations for export trade were explored.

18% of the respondents are exporters. In Q1, 56% said they did not see an improvement in the export trade. In Q2, 40% more said they do not foresee an improvement in the export trade. Notwithstanding, 7% believe exports will improve.

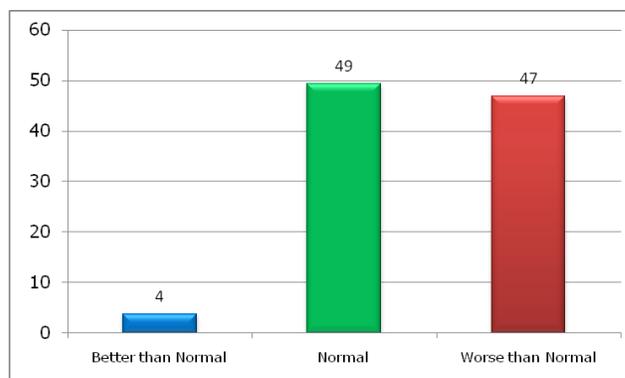


Fig. 6 Current export situation

Only 4% of the exporters surveyed perceive an improvement in their export trade in Q2, suggesting a lot more has to be done to promote the non-traditional exports (NTEs) which partly account for Ghana's export revenue.

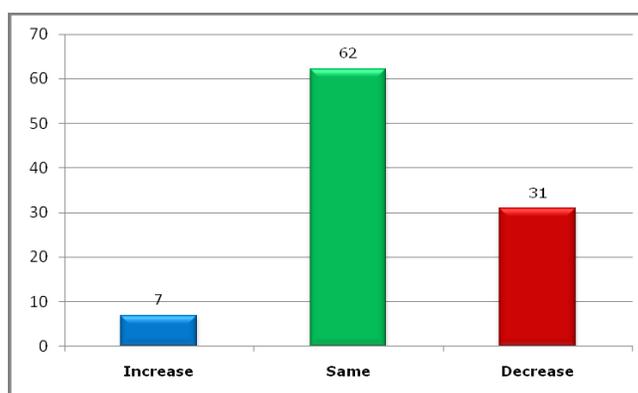


Fig. 7 Expectation of exports

### Export Expectation

In spite of the cedi depreciation creating opportunities for exporters, they are unable to harness this opportunity in the short run. Export revenues may appreciate in times of local currency depreciation but exporters said it is becoming more expensive to produce under the current economic conditions, let alone exporting. In effect 94% do not expect any improvement in their export volumes. This notwithstanding, 6% are optimistic of the future for exports.