

SUMMARY REPORT

BUSINESS CONFIDENCE SHOOTS UP IN Q1, 2016

Businesses experienced some relief and signs of recovery in the first quarter of the year, according to the AGI Business Barometer for Q1, 2016. This triggered a big boost in business confidence from 95.9 to 101.9 points for Q1, 2016. Power supply improved noticeably in Q1, according to majority of the businesses surveyed. This development drives home the importance of power supply as a major factor that impacts all forms of economic activity. Policy rate remained high at 26%, yet kept stable in the last review by the Monetary Policy Committee of BoG. It is also possible the expectation of good businesses prospects that characterize a new year gave some glimmer of hope and confidence.

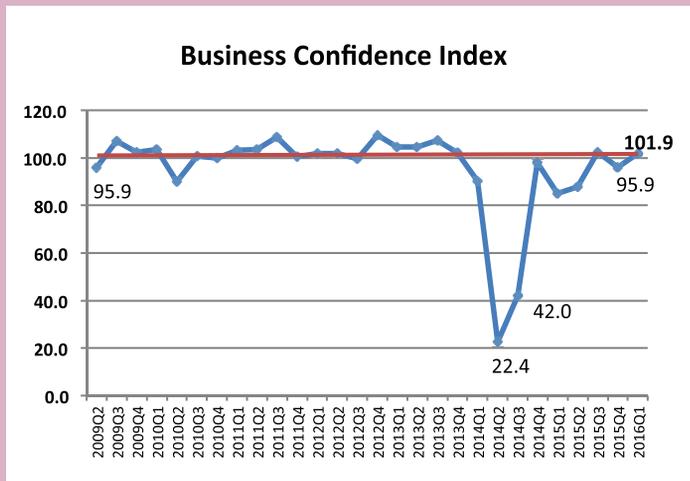
Nonetheless, a good majority of the companies interviewed have been under severe pressure from high cost of utility, inflation and multiplicity of taxes and it is important to re-examine the current utility pricing and tax regime if Government is to chart a competitive path for businesses.

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 is based on AGI's assessment of current economic conditions and perceptions and it simply expresses the state of the business climate numerically in one figure (index) with 100 as the base index. The index is calculated out of "current" business mood and "expectations" for the future.

The Business Confidence Indices featured in Fig. 1 are adjusted at the end of each year to eliminate seasonal effects associated with time series.

Fig.1 AGI Business Confidence Index



Source: Field data

Recovering from the dip in Q4 2015, the business confidence index shot up to **101.9** points in Q1,2016 as shown in Figure 1. This is a positive sign to begin a new year, considering the fact that same period in 2015 recorded a drop. Even though businesses are optimistic of the next quarter (Q2), the rise in confidence index may not be sustained if the challenges experienced in Q1,2016 persist.

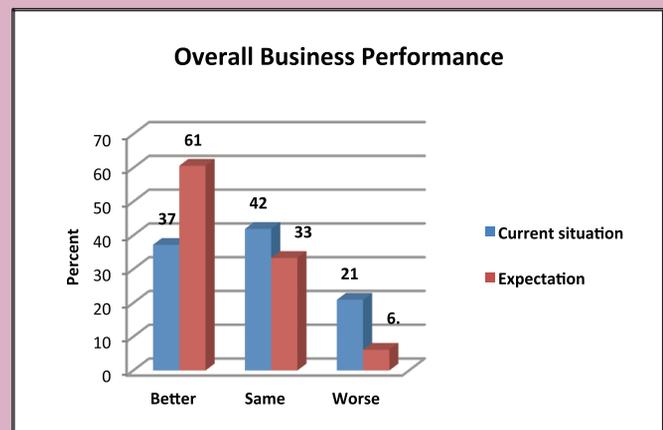
2015 recorded an average index of 92.8 falling below the 100 base index. Since its inception in 2009, the business confidence index hovered around the 100 base index but suffered the worst and most dramatic dip in 2014 as shown in Figure1.

Overall Perception of Business Performance

By comparison, the Captains of Industry rated business performance in Q1, 2016 better than Q4, 2015 and this possibly explains the rise in business confidence index for Q1. Furthermore, 61% are optimistic of business performance in the next quarter (Q2) in anticipation of a stable power supply. One in three CEOs said they do not expect any change in the business environment within the next six months. Only 6% expressed pessimism towards the coming months as Fig.2 depicts.

For companies committed to new investments, political stability is a critical priority. To this end, businesses and policymakers see 2016 as an important election year to set the path for future growth.

Fig. 2 Overall Business Performance Q1, 2016

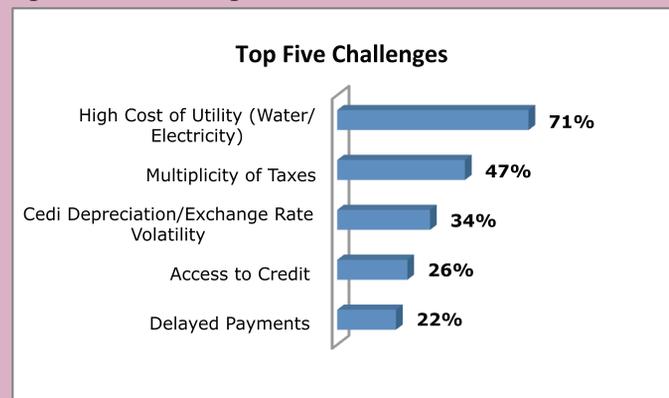


Source: Field data

Overall Challenges

The last increments in utility tariffs have negatively impacted a high proportion of businesses in Q1 as evident in Figure 3. Seven in 10 reported high utility prices as their major bottle neck. Out of this number, a total of 98% felt constrained by the increments, leaving only 2% who held a contrary view. It is doubtful if companies can sustain business on such tariffs and it will be worth exploring more affordable sources of power.

Fig. 3 Overall challenges



Source: Field data

Interestingly, Inadequate Power Supply which has historically been a top 3 challenge in the past two years was conspicuously missing from the list of top challenges for the first time. Government's investments in thermal power seem to pay off.

New taxes such as the Energy Sector levies surfaced in Q1 and it is therefore not surprising that taxes returned to 2nd position from 4th in the previous quarter, among the major challenges.

Taxation is inevitable but certain elements of the tax system can have adverse effects on the competitiveness of the business environment.

It is worrying that, Delayed Payment maintained same position as a major challenge in Q4, 2015 and Q1, 2016 suggesting that the problem might not have received the needed attention over the last six months. Access to Credit does not seem to improve as it continues to surface among the major challenges. The exchange rate volatility as experienced in Q4, 2015 extended into Q1, 2016 and it seems businesses are yet to recover from the effects.

Challenges by size

As shown in Table 1, High Cost of Utility did not only emerge as a common challenge to all the 4 categories of companies, but also occupied the number one position in order of magnitude. The effects of these challenges may be mixed but often, the SMEs are worst affected. Delayed payment was peculiar to the "Small" companies only.

Table 1: Challenges by size

| Size | Challenges | | |
|----------------|----------------------|--|---|
| | 1 st | 2 nd | 3 rd |
| Small | High Cost of Utility | Delayed Payments | Cedi Depreciation/ Exchange Rate Volatility |
| Medium | High Cost of Utility | Cedi Depreciation/Exchange Rate Volatility | Multiplicity of Taxes |
| Large | High Cost of Utility | Multiplicity of Taxes | Cedi Depreciation/ Exchange Rate Volatility |
| African Giants | High Cost of Utility | Multiplicity of Taxes | Cedi Depreciation/ Exchange Rate Volatility |

Source: Field data

Challenges by sector

Table 2: Challenges by sector

| Sector | Challenges | | |
|---------------|----------------------|-----------------------|---|
| | 1 st | 2 nd | 3 rd |
| Manufacturing | High Cost of Utility | Multiplicity of Taxes | Cedi Depreciation/ Exchange Rate Volatility |
| Service | High Cost of Utility | Multiplicity of Taxes | Cedi Depreciation/ Exchange Rate Volatility |
| Construction | High Cost of Utility | Delayed Payments | Multiplicity of Taxes |

Source: Field data

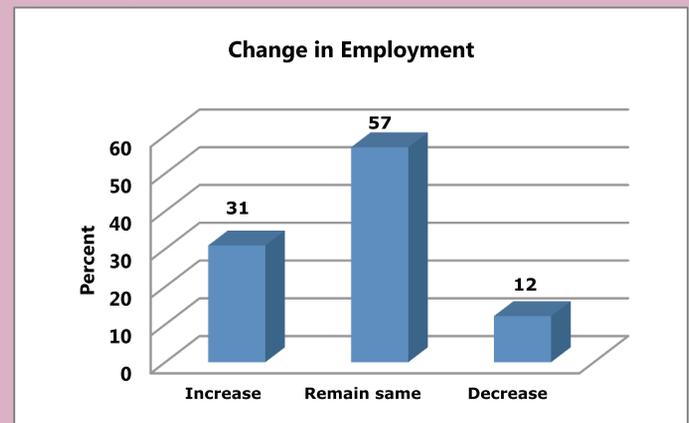
Even though multiplicity of taxes and the high cost of utility cut across all sectors, the Manufacturing and Service sectors were hardest hit. The aforementioned bottlenecks and lately the high cost of utility have consistently taken a heavy toll on the fortunes of local manufacturers especially.

It is not surprising that the manufacturing sub-sector's contribution to GDP is not growing as expected.

Contractors are still owed monies for projects completed. Unfortunately, the payments of interest on monies in arrears suffer further delays of about close to a year.

Employment Situation

Fig. 4 Employment situation



Source: Field data

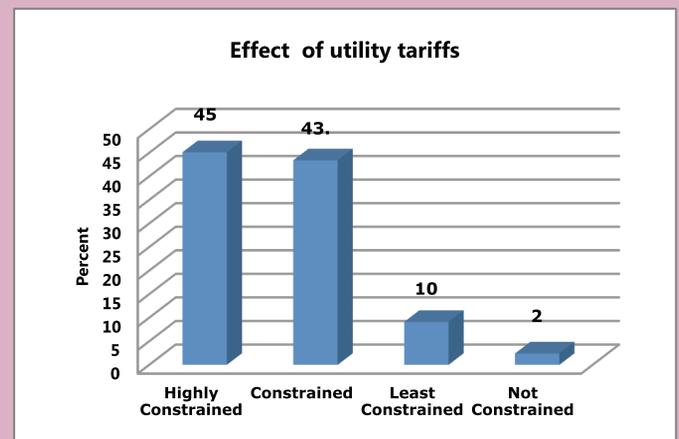
Signs of some businesses slowing down started showing up. The survey revealed that most employers (about 70%) are less optimistic about hiring within the next six months compared to their experiences with the previous quarter's workforce. Indeed, 57% of these employers intend to maintain employment levels within the next six months.

Job opportunities will however be coming from about one-third of employers who said they will increase their employment base.

Effect of current utility tariffs

An overwhelming 98% of businesses have been somewhat constrained by the recent tariffs for electricity including water which was previously not an issue. This response is consistent across all the 3 sectors surveyed, but is strongest among manufacturers (51%).

Fig. 5 Effect of utility tariffs



Source: Field data

Furthermore, most of these businesses reported increasing concerns about high utility bills and transparency in billing, suggesting that a lot more ought to be done quickly by the Utilities to address these concerns.

The companies interviewed also showed a number of positive signs that might help to counterbalance the high cost of utilities. Indeed, companies are adapting frugal measures in line with the high utility tariffs to save some cost. However, the ultimate impact adds to the cost of doing business.