

**UNRELENTING DEPRECIATION OF THE CEDI INCREASES COST OF RAW MATERIALS**

The continuous depreciation of the cedi over the last six months has resulted in increases in prices of industrial inputs according to the AGI 2012 Second Quarter Business Barometer. This is due to the fact that, most of industrial raw materials are imported, and hence the depreciation of the local currency is manifested in a rise in import duties paid on these raw materials. The exchange rate pressure does not only adversely affect prices of inputs but poses a threat to the entire macroeconomic stability of the country.

The AGI believes, so long as Ghana continues to rely on export of primary commodities and importation of finished goods, the strength of the cedi will be weakened. Therefore, the only sustainable measure to strengthen the cedi is to add value to our primary commodities before exporting them.

**OVERALL PERCEPTION OF BUSINESS PERFORMANCE**

The Business Community in Ghana is quite hopeful about improvement of performance of businesses in the third quarter of 2012. According to the AGI 2012 second quarter Business Barometer, 56.5% of the CEOs interviewed revealed that, they expect the performance of their businesses in the third quarter (2012 Q3) to be better than that of the second quarter (2012 Q2). Their confidence was based on an anticipated: increase in their market share, an enhanced purchasing power of consumers and availability of raw materials.

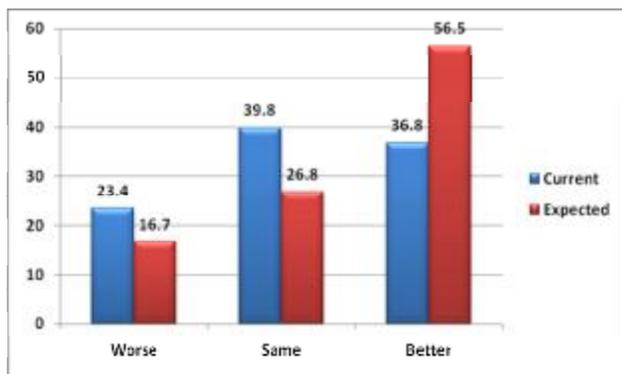


Fig. 1 Overall Business Performance for Q2 2012

On the contrary, about 17% of the respondents indicated that, they believe their businesses will perform poorly in 2012 Q3 compared to that of 2012 Q2 due to an expected: increase in inflation, rise in utility prices and continuous depreciation of the cedi. Interestingly, a sizeable 26.8% of the CEOs were indifferent in comparing the performance of their businesses in the two quarters (being compared) because they feel the economic fundamentals of the economy will remain unchanged. See Fig. 1, for

**OVERALL MAJOR CHALLENGES**

High cost of raw materials, depreciation of the cedi and high level of taxation emerged as the top three impediments restricting growth of enterprises in the country during second quarter of 2012. It is important to note the backward and forward adverse-linkage role played by the sustained depreciation of the local currency. The depreciation of the cedi (ranked 2<sup>nd</sup>) led to increase in the duties paid on imported inputs (that is why high level of taxation is ranked 3<sup>rd</sup>). The cumulative effect of high level of taxation is increases in the cost of raw materials (ranked 1<sup>st</sup>).

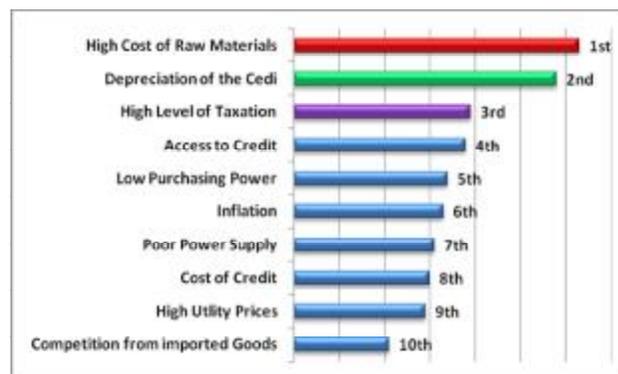


Fig. 2 Overall Challenges for Q2 2012

Fig. 2, shows that difficulty in accessing credit and low purchasing power which were ranked 4<sup>th</sup> and 5<sup>th</sup>, respectively, still constitute barriers to development of the private sector. What is more worrying is inflation which appeared on the top ten for the first time in over six quarters (was ranked 6<sup>th</sup>). Competition for imported goods experienced its lowest rank (i.e. 10<sup>th</sup>) since the introduction of the Business Barometer Survey. Lack of raw materials (which appeared in the top 10 of 2012 Q1) was replaced by inflation in the 2012 Q2 result.

**CHALLENGES BY SIZE**

Table 1: Top 3 Challenges by Size

Size	Challenges		
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
SMEs	High Cost of Raw Materials	Access to credit	Depreciation of the Cedi
Large	Depreciation of the Cedi	Competition from Imported Goods	High Cost of Raw Materials
African Giants	Poor Power Supply	Depreciation of the Cedi	High Cost of Raw Materials

Table 1 shows, the top three challenges facing firms according to the size of the enterprise. High cost of raw materials and depreciation of the cedi appeared in the top three of all the categories. Interestingly, competition from imported goods which was lowly ranked (10<sup>th</sup>) in the overall major challenges came second in the large companies' category.

## CHALLENGES BY SECTOR

Figures 3, 4, 5 and 6 depict major challenges across sectors. Access to credit maintained its position as the topmost obstacle limiting expansion of firms in the Agricultural Sector, according to Fig. 3. High cost of raw materials and high level of taxation which were ranked 2<sup>nd</sup> and 3<sup>rd</sup>, respectively, in 2012 Q2 swapped positions in comparison with 2012 Q1 result. High cost of labour (ranked 8<sup>th</sup>) and pest attacks (ranked 9<sup>th</sup>) appeared in the top ten of the sector for the first time.

### AGRICULTURE

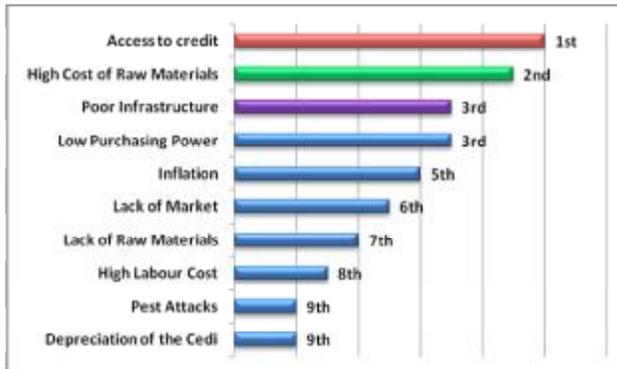


Fig. 3 Challenges Facing the Agriculture Sector

Delayed payment, high cost of raw materials and lack of contract were identified by the operators of the Construction Sector (see Fig. 4 for details). The emergence of delayed payment as the leading challenge in the sector is worrying since contractors will be unable to repay their loans on time. This development could lead to increase in interest rates paid on their loans and as such render local contractors less competitive compared to foreign contractors who do not rely on loans to implement projects.

### CONSTRUCTION



Fig. 4 Challenges Facing the Construction Sector

High cost of raw materials, depreciation of the cedi and poor power supply were ranked first, second and third, respectively, as the critical factors limiting growth of businesses in the Manufacturing Sector. The PURC must be commended for not approving any increase in electricity tariff in the second quarter as the results, both 2012 Q1 and 2012 Q2, demonstrate that the quality of power supply to businesses is low. The PURC should not hesitate to sanction the VRA, GRIDCo and ECG if the quality of power supply remains the same in the third quarter of 2012.

### MANUFACTURING



Fig. 5 Challenges Facing the Manufacturing Sector

Fig. 6 reveals that, depreciation of the cedi, high cost of raw materials and high level of taxation were singled out as the top three challenges facing the Service Sector.

### SERVICE

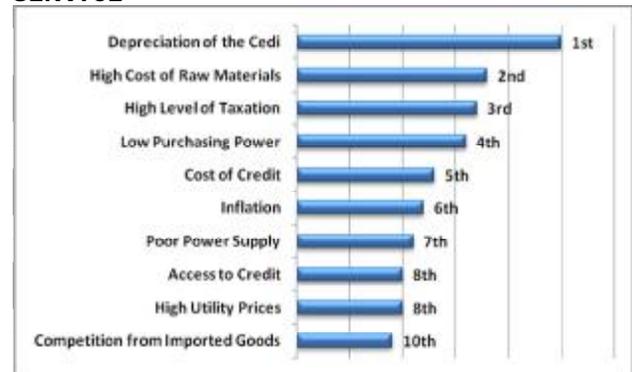


Fig. 6 Challenges Facing the Service Sector

## 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 Q2 recorded a positive indicator of 26.2 which indicate a rise in business expectation over 2012 Q1 (which recorded an indicator of 24.0). This is an indication that the confidence level of the business community in the business environment has gone up compared to quarter one of 2012.

Fig. 7 AGI BBI

