THE AGI BUSINESS BAROMETER
1st QUARTER 2017

SUMMARY REPORT

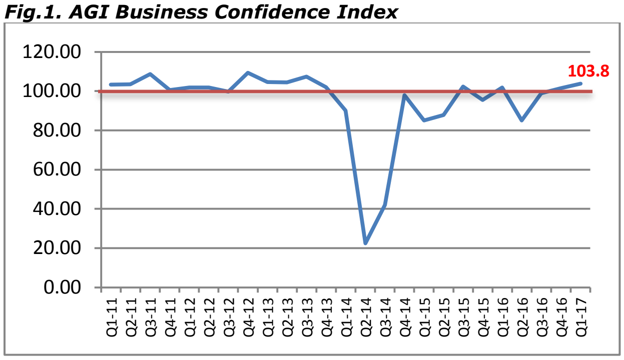
BUSINESS CONFIDENCE PICKS UP MARGINALLY

Business confidence picked up marginally to 103.8 points in Q1, 2017 from 101.6 points in Q4, 2016 according to the AGI Business Barometer. Businesses' expectations of Government remain high as they look forward with optimism to changes in the business environment. Signs of recovery are beginning to show with the economy experiencing a 23.5% policy rate and inflation 12.8% to close Q1. The drop in policy rate suggests lower lending rates for businesses if this persists. The expectation of a Budget Statement and Economic Policy that will offer some tax reliefs was also met, pointing to a positive outlook. Government's plan to support distressed companies through its stimulus package gave a glimmer of hope to Industry. It is important to note however that the rise in confidence is largely driven by expectations.

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 trends.

Fig.1. AGI Business Confidence Index



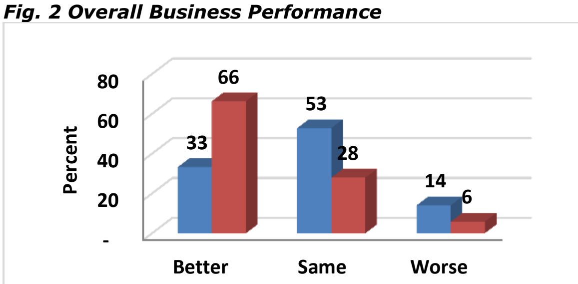
Source: Field data

Figure 1 depicts the business confidence index for Q1 of 2017. For the second quarter running, business confidence rose to 103.8 points in Q1 2017. This is significant as the business barometer had not seen such continuous rise in confidence above the base line since Q4, 2013. If the factors that impact business confidence remain unchanged there is the possibility of this trend continuing. Among the three sectors surveyed, the Service sector was the most optimistic of the business climate.

Overall Perception of Business Performance

Businesses remained quite optimistic about an improved business performance in Q1. About 1 out of 3 captains of industry believe Q1 was better than the previous quarter

Fig. 2 Overall Business Performance



Source: Field data

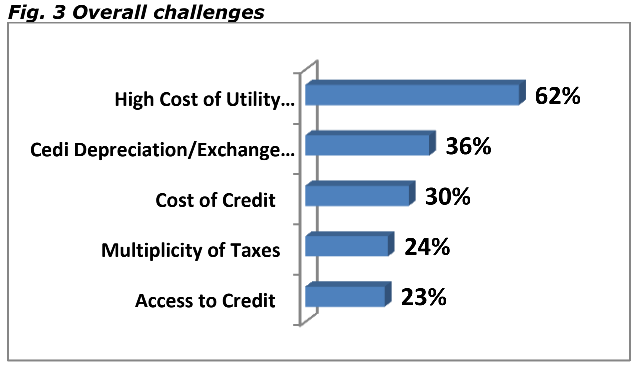
A total of 94% of businesses are optimistic business performance will not decline in the next 6 months as shown in Figure 2.

It's likely this assertion is premised on the fact that these businesses seem confident that the recent measures will yield good results.

Overall Challenges

High cost of utility (electricity/water) emerged once again as the number one challenge, suggesting that a good majority of businesses have still not seen significant improvement in tariff levels. Consistent with Government's tax reliefs, Multiplicity of taxes lost its prominent position among the top three challenges in previous quarters. This shift is significant, with cedi depreciation moving up from 4th to 2nd position in Q1. The emergence of cedi depreciation reflects what businesses experienced in Q1. Majority of the businesses that reported Cost of credit as a major challenge were SMEs. It is worthy of note that Cost of Credit retained third position as a major challenge in the last two quarters. Until affordable medium to long term financing schemes are made available, Access to Credit and Cost of credit are likely to feature consistently among the bottlenecks that the SMEs face. These challenges continue to impact business confidence and therefore require immediate measures to create that conducive climate for doing business.

Fig. 3 Overall challenges



Source: Field data

Challenges by sector

High Cost of Utility was common to all the three sectors as a major challenge, but in different magnitude whilst the construction sector's first challenge pointed to delayed payments as usual as shown in Table 1. It is worrying how "delayed payment" has become highly associated with the Construction sector.

Table 1: Challenges by Sector

Sector	1st	2nd	3rd
Manufacturing	High Cost of Utility (Electricity /Water)	Cedi Depreciation/ Exchange Rate Volatility	Unfair competition on markets
Service	High Cost of Utility (Electricity /Water)	Cost of Credit	Cedi Depreciation/ Exchange Rate Volatility
Construction	Delayed Payments	High Cost of Utility (Electricity/ Water)	Cost of Credit

Source: Field data

The manufacturing sub-sector ranked cedi depreciation/exchange rate volatility second whilst the service and construction sectors ranked cost of credit and high cost of utility (electricity/water) as a second challenge respectively. Unfair competition on markets, cedi depreciation/exchange rate volatility and cost of credit were ranked third by the manufacturing, service and construction sectors in that order.

Challenges by Size

All the companies ranked high cost of utility (electricity/water) as their first challenge. This gives credence to the fact that high utility tariffs are hurting industries. African Giants, Large Companies and Small companies listed cedi depreciation/exchange rate volatility as a second challenge except for Medium sized companies which ranked multiplicity of taxes as a second challenge. Multiplicity of taxes was ranked third by African Giants and unfair competition on markets ranked third by large companies. Cost of credit was ranked third by Medium and Small companies as shown in Table 2.

Table 2: Challenges by Size

Size	1st	2nd	3rd
African Giants	High cost of Utility (Electricity/ Water)	Cedi Depreciation/ Exchange Rate Volatility	Multiplicity of Taxes
Large	High cost of Utility (Electricity/ Water)	Cedi Depreciation/ Exchange Rate Volatility	Unfair competition on markets
Medium	High cost of Utility (Electricity/ Water)	Multiplicity of Taxes	Cost of credit
Small	High cost of Utility (Electricity/ Water)	Cedi Depreciation/ Exchange Rate Volatility	Cost of credit

Source: Field data

Employment Expectation

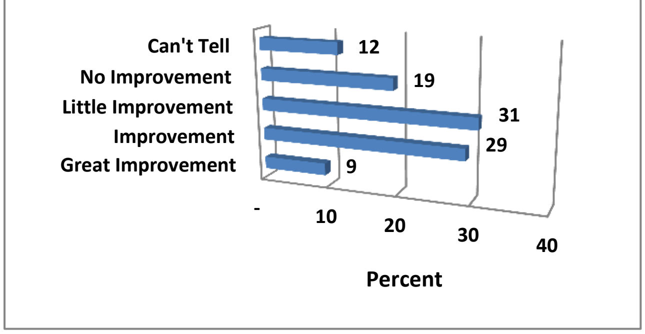
In the next six months 56% of businesses are likely to maintain their current employment levels, whilst 35% indicated that they may hire more people.

However, 9% of businesses indicated that they would reduce the current employment level. Results of the previous surveys indicate that the business environment does not motivate businesses to employ additional staff except in very critical cases.

Impact of Tax Reliefs on Businesses

Businesses were excited at the prospect of tax reliefs as announced.

Fig. 4 Impact of Tax Reliefs



Source: Field data

From Figure 4, an aggregate of 69% respondents believe the tax reliefs will bring different levels of improvement to their businesses. It is possible the taxes announced did not have bearing on the remaining 31% who said little about the tax reliefs or could simply not figure out the impact immediately. Obviously, businesses want to see more reliefs from specific taxes affecting their businesses and the recommendations listed in Figure 5 affirm this view point.

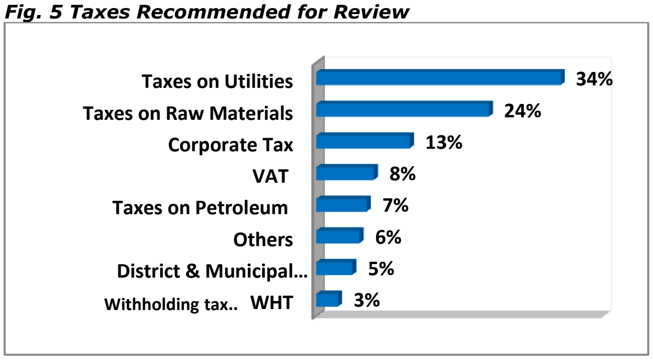
Taxes Recommended for Review

Respondents gave an indication of additional taxes that require a review as shown in Figure 5.

It is not surprising that taxes on utilities top the list. The tax component on utilities is one of the key drivers of the high electricity tariff, according to respondents.

This further strengthens the position of industry that the current electricity tariff levels deserve government's attention. 24% of businesses, mainly manufacturers will be glad to see Government reconsider "taxes on raw materials" under the supplementary protection measures of the CET. Interestingly, Corporate tax (13%) did not emerge as strongly as expected. Respondents (5%) say the District & Municipal Authorities levies/fees lacked transparency and ought to be reviewed to prevent contention "Other" taxes as captured include capital gains tax, income tax and property rates.

Fig. 5 Taxes Recommended for Review

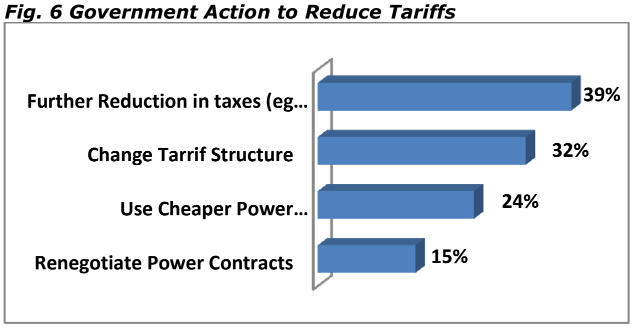


Source: Field data

Government action to reduce Utility Tariffs

Current utility tariff levels continue to generate debate. Figure 6 highlights some suggestions by businesses to help reduce utility tariffs. 39% are of the view that a reduction of VAT on electricity will bring tariffs down, suggesting that the recent reductions in the energy sector levies, National Electrification and Public Lighting levies did not make significant impact on the current electricity tariff levels. 32% of also indicated that the tariff structure should be realigned not to disadvantage Industry as being experienced currently. 15% will be glad to see contracts signed with independent power producers renegotiated to give competitive rates.

Fig. 6 Government Action to Reduce Tariffs



Source: Field data