THE AGI BUSINESS BAROMETER
3RD QUARTER 2017

AGI Association of Ghana Industries

SUMMARY REPORT

Business Confidence drops marginally in Q3, 2017

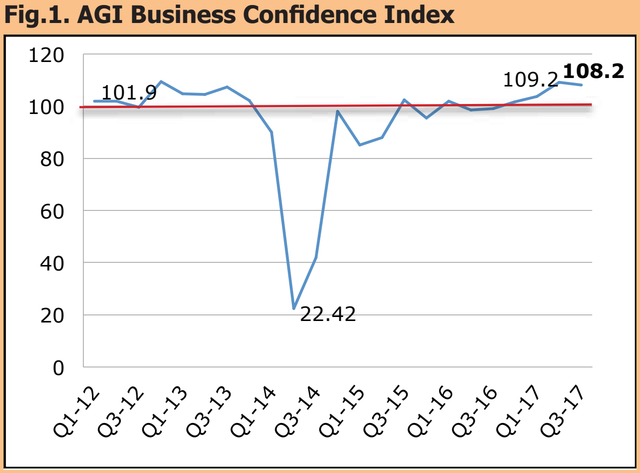
Business confidence dropped marginally from 109.2 in Q2 to 108.2 points in Q3 2017. Unmet expectations of businesses coupled with the high electricity tariffs that persisted in Q3 possibly account for the marginal drop in business confidence. Consistently, the monetary policy rate has dropped, yet does not seem to impact on lending rates and this remains a major concern to businesses.

The tax reliefs and relatively stable macro-economic conditions continued to pay off and it is not surprising that multiplicity of taxes which hitherto featured among the top bottlenecks, disappeared from the top five challenges in Q3.

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. It is based on the business community'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 "expectation" of businesses for the future.

Fig.1. AGI Business Confidence Index

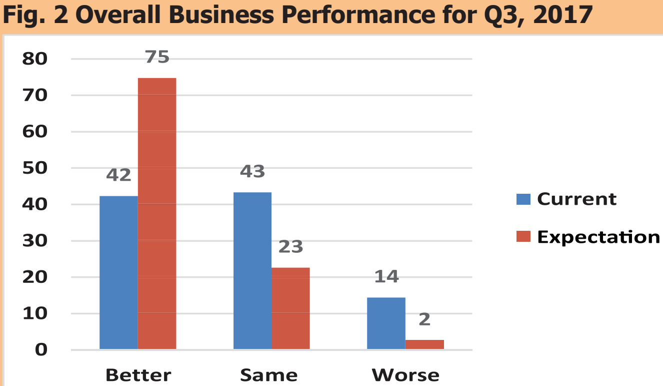


Source: Field data

Figure 1 shows the confidence indices as captured over the last six years. The index took a downward trajectory in Q3 2017, a deviation from the indices recorded in the last three quaters.

Overall Perception of Business Performance

Fig. 2 Overall Business Performance for Q3, 2017



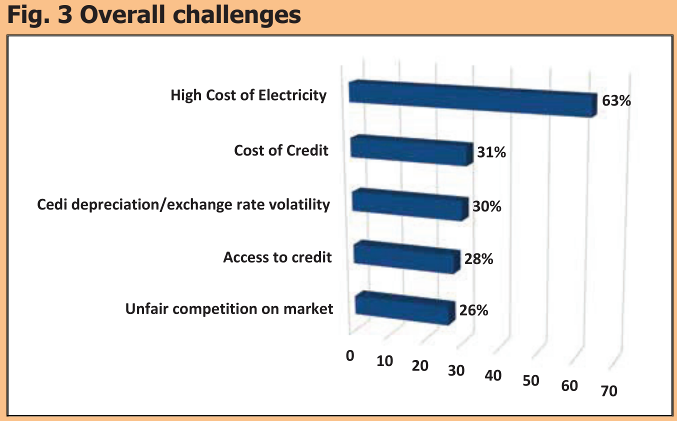
Source: Field data

In Q3, 42 percent of captains of industry said they saw improvement in their business operations compared to the previous quarter. However, a slightly higher proportion (43%) said that their business performance has not changed. For 14%, business performance worsened in Q3 and the drop in business confidence index supports this assertion. In anticipation of the festive season, 3 in 4 respondents expect that business performance will get better in Q4, while 42% remained indifferent as to whether business performance will improve or worsen in the ensuing quarter.

Overall Challenges

The reductions in the energy sector levies do not seem to make any significant impact on the cost of electricity. During the quarter under review, 63% of captains of industries reiterated that High cost of electricity still remained their top most challenge while 31% of the respondents ranked Cost of credit as their second challenge impacting their businesses. Cedi depreciation/exchange rate volatility emerged as the third top most challenge for business,displacing Access to credit, which placed third in Q2. 28 percent of the respondent reported access to credit as their fourth challenge despite the consistent reduction in both inflation and the monetary policy rate.Banking experts admit that the reductions signal a positive trend in the macro-economic conditions but cautioned that other factors such as interest payment on fixed deposits and borrowers' risk are key variables for calculation of interest rates. The uncertainty about how soon reduction in policy rate will drive down lending rates is worrying. This impacts business confidence and therefore requires timely response from the banks to create and restore the conducive business climate to trigger growth of the economy.

Fig. 3 Overall challenges



Source: Field data

Challenges by sector

All three sectors (Construction, Manufacturing and Service sectors)identified with the high cost of electricity as the number one challenge in their business operations in Q3 as shown in Table1. The prevalence reflects the magnitude of this bottleneck. Delayed payment continues to characterize the Construction sector. This is worrying in view of the high financial cost associated with funding of projects in this sector. The Construction sector also came under pressure from exchange rate volatility in Q3. Differences in tax administration and regime partly account for the unfair competition as reported by Manufacturers. For instance, businesses on the 17.5% standard VAT rate were seen to have an advantage over their peers on the new 3% VAT flat rate scheme. In certain cases, manufacturers were unsure of the duties at the ports for certain imports.

Cost of credit moved from second to third position for the Service sector and it is likely the drop in monetary policy rate is beginning to impact the Service sector positively.

Table 1: Challenges by Sector

Sector	1st	2nd	3rd
Construction	High Cost of Electricity	Delayed Payment	Exchange Rate Volatility
Manufacturing	High Cost of Electricity	Unfair Competition on the market	Cost of Credit
Service	High Cost of Electricity	Cost of Credit	Access to Credit

Source: Field data

Challenges by Size

All but African Giants ranked high cost of electricity as their first challenge. This gives credence to the fact that high utility tariffs are still hurting industries. African Giants however, revealed multiplicity of taxes to be their top most challenge during the period under review. Cost of credit and exchange rate volatility became the second and third challenges respectively of both African Giants and Large size companies. Exchange rate volatility and unfair competition on the market emerged as challenge facing medium size companies. Meanwhile the small sized companies revealed access to credit and cost of credit as major challenges affecting their business operations.

Table 2: Challenges by Size

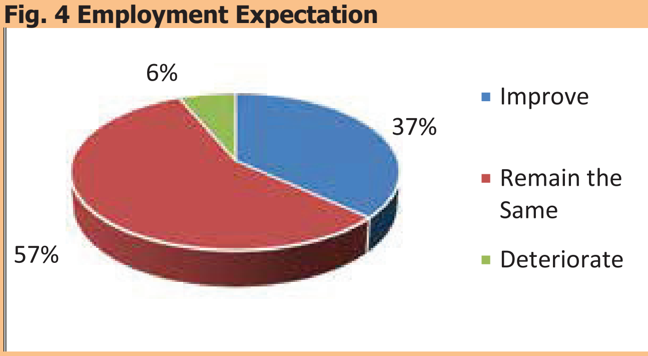
Size	1st	2nd	3rd
African Giants	Multiplicity of Taxes	Cost of Credit	Exchange Rate volatility
Large	High Cost of Electricity	Cost of Credit	Exchange Rate volatility
Medium	High Cost of Electricity	Exchange Rate volatility	Unfair Competition on the market
Small	High Cost of Electricity	Access to credit	Cost of credit

Source: Field data

Employment Expectation

57 percent of businesses do not expect any change in their employment levels in the next 6 months as shown in Figure 4, whilst 37 percent of businesses are likely to hire more people in the next 6 months partly to support increased production due to high demand during the Christmas season. These are often casual labour for the season.

Fig. 4 Employment Expectation



Source: Field data

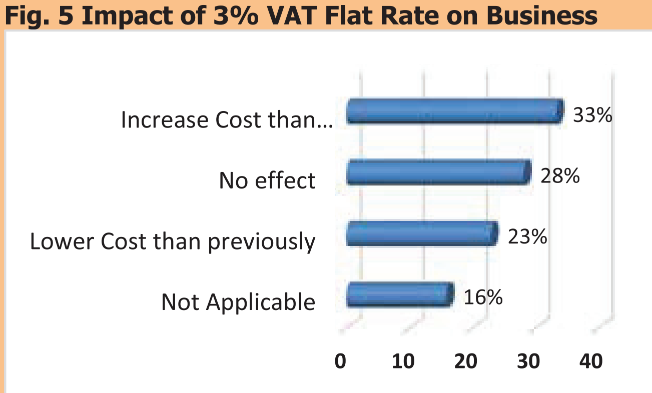
However, 6 percent of businesses indicated that they would decrease employment.

Impact of 3% VAT Flat Rate on Business

VAT (Amendment Act 948) Act 2017, which was introduced to facilitate the collection of VAT on the supply of goods in the distribution chain, provides that retailers and wholesalers account for VAT under the VAT flat rate scheme (VFRS). Even though Government had maintained that the appropriate application of the law should not result in any price increases, some businesses held a contrary view.

About 1 in 3 businesses reported that the new 3% VAT Flat Rate introduced in July had increased the cost of their products. For 28 percent, the new 3% VAT makes no difference in pricing in any way. Contrary to the previous views, 23 percent of respondents however said the introduction of the new 3% VAT scheme lowers the price of their goods as compared to the 17.5% VAT standard rate in the previous VAT regime. Sixteen percent of respondents said the scheme was not applicable to their business.

Fig. 5 Impact of 3% VAT Flat Rate on Business

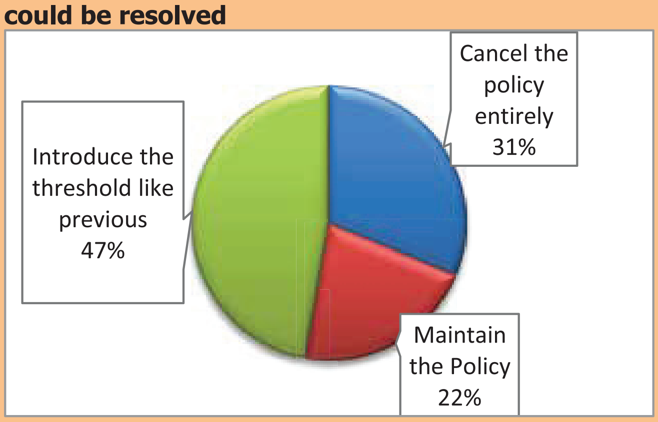


Source: Field data

Suggestions to address concerns over 3% VAT Flat Rate

When asked about how Government could address the numerous concerns over the new 3% VAT flat rate scheme introduced in July 2017, 31percent of the respondents called for an entire cancellation of the policy while 22 percent proposed that the policy should be maintained. 47 percent proposed that Government should introduce a threshold as it was in the previous 3% VAT regime.

Fig. 6 How concerns over of 3% VAT Flat Rate could be resolved



Source: Field data

Debates over the new 3% VAT flat rate scheme and the 17.5% VAT standard rate often ended in limbo. Some businesses, however remained resolute in their opinion that the 3% VFRS has a cascading effect on prices and this possibly explains why 31% think businesses will be better off if the policy is cancelled. The overall responses suggest that a good majority still have reservations about the 3% VAT flat rate regime.