

SUMMARY REPORT

BUSINESS CONFIDENCE DROPS IN QUARTER 4, 2013

Business confidence dropped significantly in the last quarter ending the year 2013, according to the AGI Business Barometer. Most companies were constrained by Access to Credit and Cost of Credit. SMEs remain vulnerable and most affected by these constraints which have persisted among top challenges in the survey. High Utility Prices, Taxes and High Cost of Raw materials also featured prominently as key challenges facing the large companies.

As the global competitive environment keeps changing current business trends, new opportunities open up but at the same time new and existing constraints continue to pose challenges for local businesses and policy makers. The recurrence of these challenges in Q4 suggests a lot more ought to be done by Government to ensure sustainable economic growth and competitiveness.

THE AGI BB INDICATOR (BBI)

The 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 as an index that ranges between +100 and -100. It is calculated out of "current" business mood and "expectations" for the future.

From the graph below, Q4 2013 experienced an index value of 26.7 being the lowest in about 18 months at the same time falling below the average index of 32.7 for the year. The indicators for 2013 reflect a downward trend in business confidence. Q3 was an exception where completion of the election petition case, improvement in power supply and high expectations of the Christmas season boosted business confidence (40.8) considerably.

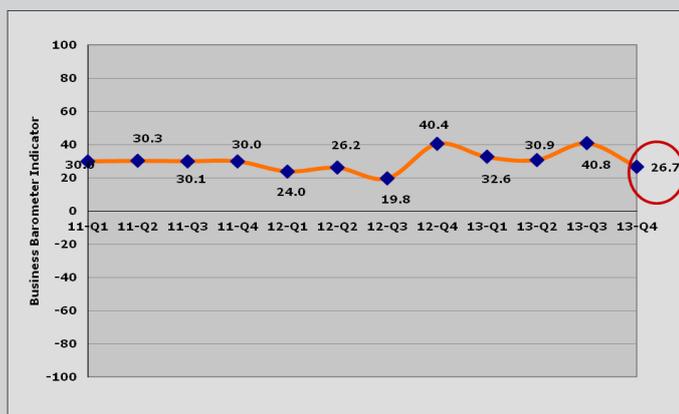


Fig. 1 AGI BBI

OVERALL PERCEPTION OF BUSINESS PERFORMANCE

Quarter four recorded a sharp decline in business performance. While 41% were indifferent about the business climate, about one in four affirmed that their expectation of an improved business climate in Q4 was not met.

By comparison, quarter three presented better prospects for business and was rated better than quarter four, 2013 as

evidenced by the 45.4% who felt businesses had improved as against 33% in Q4.

The next quarter looked promising as a good majority (55%) expressed optimism about the business climate. Only 7% felt business will still experience a downward trend in the next quarter if measures are not put in place to mitigate the rising cost of doing business. Utility prices and rising cost of raw materials were cited as factors which could bring down business confidence.

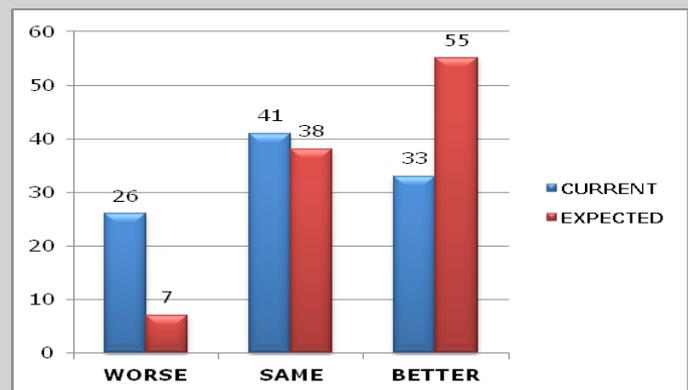


Fig. 2 Overall Business Performance for Q4, 2013

OVERALL MAJOR CHALLENGES

High Utility Tariffs and the additional taxes (VAT), among others, as announced in the 2014 Budget Statement and Economic Policy eroded business confidence in Q4 to a large extent. Captains of industry are of the view that electricity tariffs could reduce if there is regular supply of gas to fire power generation plants and believe this must still engage Government's attention.

High cost of raw materials on account of import duties and strength of the cedi also impacted negatively on business confidence in Q4. Indeed, the battle against inflation ended the quarter with 13.5% for December being the highest over the last two years. It is therefore not surprising that the depreciation of the cedi was a common phenomenon across all sectors. Major growth for businesses is generated during the Christmas season where consumers have high purchasing power and propensity to consume. In contrast to this phenomenon, lack of market featured prominently among the major challenges.

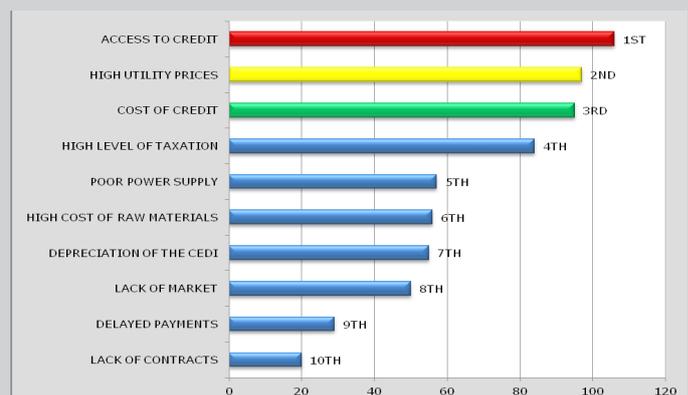


Fig.3 Overall Challenges for Q4, 2013

The high level of taxation also compromised growth targets for Q4. The quality of power supply deteriorated as this moved up from 9th position in Q3, to occupy 5th position in Q4.

CHALLENGES BY SIZE

Table 1: Top 3 Challenges by Size

Size	Challenges		
	1st	2nd	3rd
SMEs	Access to credit	High Utility Prices	Cost of credit
Large	High Utility Prices	High Cost of Raw Materials	High level of taxation
African Giants	High utility prices	Poor Infrastructure	High level of taxation

In terms of challenges, high utility prices was common to all the business categories while high level of taxation was peculiar to only the Large and African Giants in Q4. The challenge of Poor Infrastructure was peculiar to the Agriculture companies among the African Giants surveyed.

CHALLENGES BY SECTOR

Agriculture: Power supply and high level of taxation were not issues for the Agriculture sector in Q4 as can be seen from figure 3. The possibility that the Agriculture sector will experience much transformation if the two major challenges of Access and Cost of credit are addressed is high. It is doubtful if the Agriculture sector enjoys more than 10% lending from the commercial banks in Ghana. It is also likely the state of infrastructure has worsened as it moved up two positions to assume 3rd position in Q4, from its 5th position in Q3. Others which ranked 10th comprised poor weather conditions, crop diseases and unstable market prices.

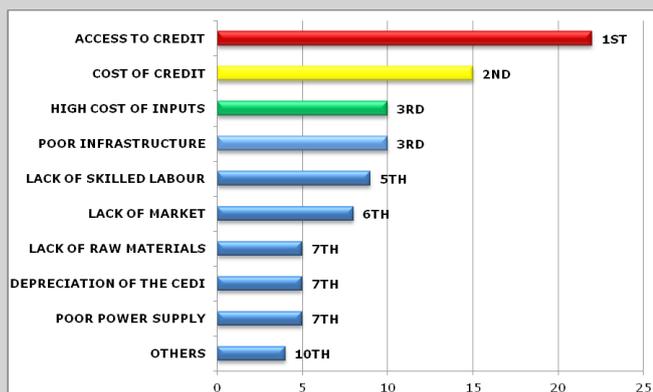


Fig.4 Challenges facing Agriculture sector

Manufacturing: The Manufacturing sector depends heavily on power for production. The additional 266MW (from Bui) coming on stream between May and August was a significant relief in Q4 except for the high electricity tariffs which took first position. Again, Access to Credit and Cost of Credit persisted in Q4. It is worthy to note that the rising influx of imports took its toll on manufacturing as this manifested as competition from imports that flooded the markets during the Christmas festive season. This influx of imports stifled sales of local products, according to local Manufacturers.

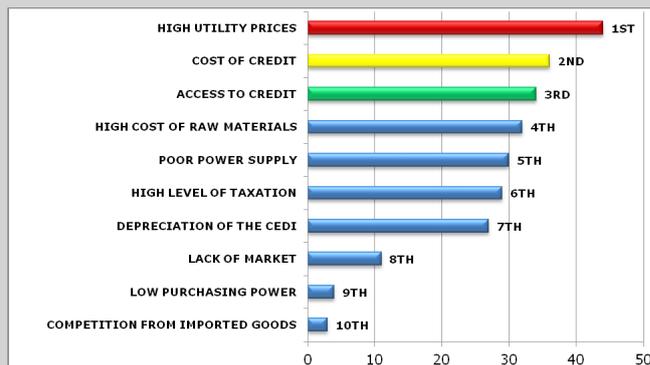


Fig.5 Challenges facing Manufacturing sector

Service: The Service Sector suffered High Utility prices, High level of taxation and Access to credit which emerged as top three challenges for the sector. The sector could not also defy the depreciation of the cedi which ranked 7th with Inflation trialing three positions below in order of magnitude.



Fig.6 Challenges facing Service sector

Construction: According to contractors, delays in payments for projects have become perennial. These outstanding payments were still barriers to the award of new Government contracts, except for the foreign donor-funded projects which are in the minority. Access to credit and cost of credit remained a challenge in Q4. Local contractors also believe foreign firms are given priority in the award and payment for contracts.

