

SUMMARY REPORT

**IMPROVED POWER SUPPLY BOOSTS BUSINESS
CONFIDENCE IN QUARTER THREE (Q3)**

Energy supply related issues have attracted more attention since the last three quarters. The impact of over 250 megawatts of power added from the Bui dam to the national grid between May and August was largely felt in quarter three (Q3), according to the AGI Business Barometer, Q3, 2013. This was a big relief to businesses and it is amazing how an improved power supply could significantly impact on business even though there were agitations over the proposed electricity tariffs.

Competitiveness conditions of basic factors such as cost of raw materials and utility prices have however proven to be severe obstacles to growth of businesses in Q3.

AGI believes the further removal of barriers to competitiveness must engage Government's attention the more if local businesses are to remain relevant in the current global economy.

SMEs are still seen as pivotal players in creating economic growth, but their development continues to be largely constrained by access to credit and cost of credit as seen in Q3.

OVERALL PERCEPTION OF BUSINESS PERFORMANCE

The overall business confidence for Q3 boosted significantly while expectations of Q4 ahead dropped marginally according to the survey. The trend of business seen in Q2 allows a fair comparison with Q3. A lot more (70%) Captains of industry were more optimistic of the business climate in Q3 than expected in Q4 with 66.7%. In general, Q3 was better rated than its previous quarter possibly on account of an improved power supply as experienced in August. Thirty-two percent (32%) did not think business will decline or improve in Q4. The 66.7% Captains of Industry who felt business performance will improve in Q4 cited improved sales during the Christmas festivities and purchasing power as reasons. Less than 2% think business will decline in Q4 on account of high taxation and the utility prices. Regardless of these potential constraints ahead in Q4, a good majority of the Ghanaian business community have a positive outlook to business.



Fig. 1 Overall Business Performance for Q3 2013

OVERALL MAJOR CHALLENGES

Top major challenges were in the areas of High Utility Prices, Access to Credit and High Cost of Raw Materials according to the

survey. High Utility prices gained more prominence in Q3 than in Q2 by moving up 5 positions. Industry players had anticipated tariff increments by the close of the Q3 even though the exact percentage review remained uncertain. The introduction of special levies impacted significantly on the cost of raw materials. Access to Credit and Cost of Credit took entrenched positions between Q2 and Q3. Poor Power supply was the greatest mover between Q2 and Q3 as it dropped from 1st position to 9th position in Q3. Power generation has not kept pace consistently with the 10% energy demand projection each year. However, the impact of the additional megawatts of power coming on stream was felt in Q3.



Fig.2 Overall Challenges for Q3, 2013

Inflation lost its position to the growing imports which did not feature among the top ten challenges in Q2, but became manifest in Q3 as competition from imported goods.

CHALLENGES BY SIZE

Table 1: Top 3 Challenges by Size

Size	Challenges		
	1st	2nd	3rd
SMEs	Access to credit	High cost of raw materials	High Utility Prices
Large	High Utility Prices	High level of taxation	Cost to credit
African Giants	High Utility Prices	High level of taxation	Depreciation of the cedi

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 Q3. Access to credit has been peculiar to SMEs and policy makers still face this challenge as long as the problem keeps recurring each quarter and remains unresolved.

CHALLENGES BY SECTOR

There were sectoral variations in the assessment of business as shown in the graphs that follow.

Agriculture: For a successive quarter running, Access to credit, High cost of inputs and Cost of credit emerged once again in the same sequence as the top 3 obstacles limiting the development of the sector. The poor access to credit reflects the

limited loan portfolio the Agriculture sector enjoys from the banks. Where available, the lending rates can hardly support agriculture business. Poor Infrastructure gained prominence as businesses complained about poor roads linking production sites to market centers. The impact of inflation inching up from 11.8% in July to 11.9% closing September was felt by the Agriculture sector

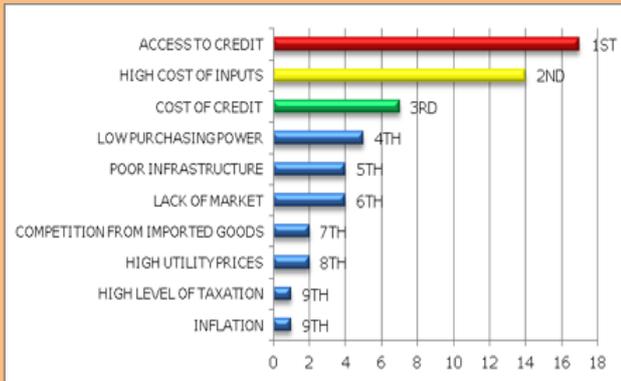


Fig.3 Challenges facing Agriculture sector

Manufacturing: Quarter three saw a significant improvement in the power supply situation for manufacturing as this was relegated to the 8th position from 1st position in quarter two. The sector was however severely affected by the High Utility Prices announced to take effect in October. Quarter three also saw the introduction of new fiscal policies by Government to address its budget deficit. The special levies that took effect in August impacted negatively on the cost of raw materials and these taxes possibly account for the High level of taxation as experienced by the sector. While high level of taxation maintained same position in Q2 and Q3, depreciation of the cedi moved up from 7th to 4th position between Q2 and Q3.

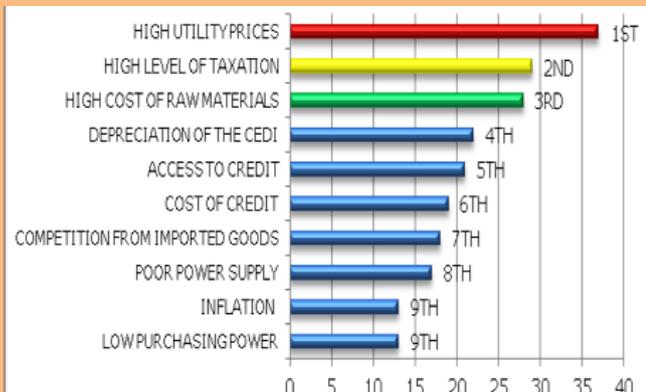


Fig.4 Challenges facing Manufacturing sector

Service: Currently the largest contributor to GDP, the Service sector remained under pressure from High Utility Prices and High level of taxation in quarter three. High cost of utility displaced Poor Power supply to become the number one challenge of the sector in Q3. Business thrives better on good infrastructure. It is therefore not surprising that the infrastructure deficit is being felt across two key sectors.



Fig.5 Challenges facing Service sector

Construction: Contractors continued to experience delay in payments for jobs already done. The delay in payments has persisted since the first quarter. It still remains uncertain when payments will be received for the jobs done. While private construction works progressed, Contractors said many Governments projects are still on hold, except for the foreign donor-funded projects. These results are broadly in line with the pace of construction works in the sector.



Fig.6 Challenges facing Construction sector

Contrarily to the trend experienced by the other sectors, high cost of utility was the least challenge for the construction sector in Q3.

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 a figure that ranges between +100 and -100. It is calculated out of "current" business mood and "expectations" for the future.

By comparison, Q3 registered a strong business confidence as shown in figure 7 below. Business operators experienced better prospects in the business climate with the overall indicator rising from 30.9 in Q2 to a significant 40.8 in Q3.

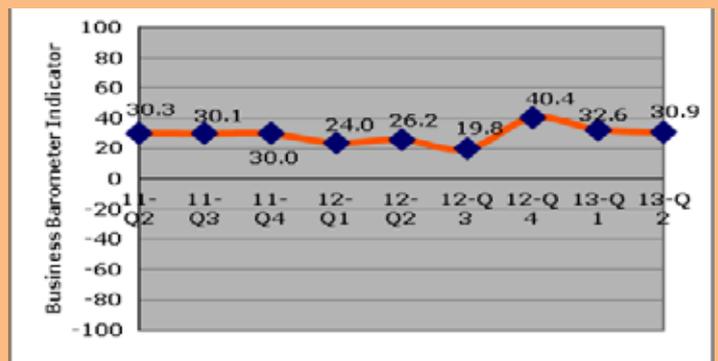


Fig. 7 AGI BBI