

PRESS STATEMENT

Local industry still under pressure despite signs of recovery

Consistent with the Association of Ghana Industries (AGI) policy to carry out evidence-based advocacy, AGI's business barometer conducted for the period, April to June to assess the health of the economy, recorded a surge in business confidence. The business index shot up to 104.8 in Q2, from 100.5 in Q1. Admittedly, the reduction in electricity tariffs has given industry some relief and level of confidence going forward.

However, the Association notes with concern, related developments in the Ghanaian economy and reiterates that the influx of imports remains a major risk to the growth of Industry and the country's job creation prospects. Instances of weak local currency and exchange rate volatilities as experienced in Q2 reflect the import-oriented nature of our economy.

Businesses came under intense pressure from cedi depreciation in Q2. Speculations about new taxes emerging in the mid-year budget review negatively impacted business confidence.

Further to the aforementioned, AGI wishes to emphasize the following;

1. Cedi depreciation

Looking back into quarter one this year, we noted a number of positive signs including a good mix of macroeconomic indicators. But contrary to our expectation for quarter two, the cedi yielded to pressure from the world's major trading currencies thereby impacting the cost of doing business. AGI is urging Government to quickly institute corrective measures to prevent further erosion of the gains made in quarter one.

2. Electricity tariff reductions

For the first time in the last eight quarters, high cost of electricity dropped from first to third position among the challenges businesses faced. The 25% to 30% reduction in electricity tariffs, a major driver for economic growth, brings some relief to Industry and non-residential customers. AGI is optimistic the reductions will open up new prospects for businesses and competitiveness of Industry. Reversing the practice where Industry subsidizes residential consumers will further drive down the cost of electricity to industry and therefore measures must be taken to reverse this trend.

3. Liquidation of local banks

AGI regrets the collapse of seven local banks in the country. Weak corporate governance structures and the lack of adherence to the BoG's regulations as reported to be root causes for the collapse were avoidable. Even though this development may undermine the integrity of local banks, AGI believes there are similar local banks that measure up to expectation and must be encouraged to keep to standards. AGI is therefore urging the general public not to generalize this development but continue to do business with the remaining local banks. Meanwhile, AGI commends the BoG for the ongoing reforms in the banking sector to streamline operations to forestall any future insolvency of other local banks. Coupled with the Ghana Reference Rate, it is our expectation that the reforms will ultimately lead to a fall in lending rates.

4. Launch of Public Sector Reform Strategy

We commend Government, led by HE. President Nana Akufo-Addo, for the launch of the Public Sector Reform Strategy. The services of our public sector impact heavily on private sector and we therefore require that mutual support from the public sector in doing business. We trust that the implementation of this strategy will lead to efficiency and timeous delivery of service to the private sector and the general public.

5. New Straight levy regime

AGI notes with serious concern, the current straight levy regime as introduced in the mid-year budget review, where manufacturers can only claim 12.5% VAT, leaving 5% as cost burden, passed on to consumers. This makes manufacturers less competitive. The 3% VAT Flat Rate Scheme (VFRS) operators (retailers/traders) will not suffer such unclaimed VAT (5%) under this new straight VAT regime.

It is worthy of note that, prior to the mid-year budget review, manufacturers claimed 17.5% input output VAT fully, leaving no cost burden. We will appreciate a tax regime that is more transparent and predictable.

In addition, AGI is requesting for a one-month grace period to allow businesses to align their systems/books to the new straight levy/VAT regime.

Finally, AGI once again appreciates the level of collaboration between Government and the private sector and would expect further deepening of this relationship to ensure that Government policies and regulations lead to the creation of favourable business environment for Industry to thrive.

Signed: Dr. Yaw Adu Gyamfi

AGI President

For and on behalf of Association of Ghana Industries

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