

IEA BUSINESS CONFIDENCE SURVEY

Press Release

The Institute of Economic Affairs (IEA), Ghana's Premier public policy Think Tank is devoted to the promotion of good governance and sustainable economic development in Ghana and West Africa, using research and advocacy. Over the last twenty five years, the IEA served as a centre for policy analysis, a forum for the exchange of ideas and a resource centre for public education. The IEA's research and persistent advocacy has influenced several policy documents in Ghana.

Three (3) years ago the Board of the IEA recommended the addition of a Survey Centre to the IEA's two (2) Centres', the Economic and the Governance Centre's. The addition of the Survey Centre was to strengthen the conduct of empirical social science research for policy discussions and formulation.

The Institute's surveys over last three (3) years, focused largely on socio-economic and governance issues, including peoples' living conditions, important problems facing Ghanaians, Government's performance in addressing socio-economic problems, trust in public institutions and public officials, public safety and security, and corruption. These surveys have enhanced public awareness of these issues and generated informed debate on key challenges facing the country as well as to address them.

Late last year, the Institute added a Business Confidence Survey (BCS) to its surveys. The decision to conduct BCS is in recognition of the private sector as the key driver of the economy—the engine of growth. Our business Confidence Survey asks company manager's about the current situation of their business as well as their plans for the near future. Experience has shown that surveys of this type provide information that is valuable to the respondents themselves i.e. businesses surveyed and the policy makers and analysts. It is important to note that although the Business Confidence Surveys do not provide precise information on levels of output, sales, investment or employment, they can be used to predict changes in these aggregates and, for that reason; they are particularly useful for analysing the business cycle.

At the IEA, we carried out the Business Confidence Surveys to obtain qualitative information for use in monitoring the current business situation in the country and to enable us forecast short-term developments in the country.

The maiden BCS covered 93 firms in the three key industrial regions: Greater Accra, Ashanti and Western. The Survey covered firms in the three major sectors of the economy, i.e. agriculture, industry and services. The number of companies selected from each sector was based on the sector's contribution to GDP. Data was collected on, among others: business performance, business environment, and business expectations and prospects.

Summary of Results

The main results of the BCS are the following:

1. The performance of firms interviewed has worsened in the last six months, largely due to the adverse business environment. 53% of the non- financial sector firms interviewed indicated that their performance had deteriorated over the last six months compared with the previous six months. However, businesses were optimistic about their performance in the following six months. This optimism seemed to emanate from the fact that at the time of the interview the country had emerged from a major economic crisis, particularly relating to the cedi and there appeared to have been prospects of the energy crisis improving, as a result of official assurances.
2. The financial sector firms seem to have performed better in the in the last six months than the non-financial sector firms. Only 5.7% of financial sector firms experienced deterioration in performance over the last six months. This dichotomy appeared to emanate from the fact that these two sectors had different sets of constraints. Moreover, it suggests also that the financial sector may be riding on high unusually high returns, as a result of the exceptionally high interest rates and spreads.
3. There was a net loss of employment in the past six months. The net loss of employment was to be expected given the myriad of constraints facing businesses, including, in particular, the energy crisis which has precipitated layoffs. In line with the poorer performance of the non-financial sector, the proportion of firms laying off workers was also higher. While 41.5% of firms in the non- financial sector were laying off workers, only 12.86% of firms were doing so.
4. The business environment had deteriorated in the last six months. This is evident in the obstacles facing businesses—including shortage of energy, high cost of credit and poor infrastructure—and adverse macroeconomic environment, including high inflation and currency instability.
5. The “leading indicators,” including investment, sales, stocks/inventory and employment, which reflect future business confidence and the health of the economy, were pointing in the positive direction. Again, this seems to reflect the fact that we had emerged from a

major economic crisis at the time of the interview and businesses were more optimistic about the future.

Policy Recommendations

Based on the above results, we make the following recommendations for the attention of policy makers:

1. There is a strong need to relieve business of the many constraints facing them as identified above. That is how we can promote the private sector as the engine of growth.
2. Most importantly, there is a need to address the energy crisis as a matter of urgency since the situation is crippling businesses. Business respondents identified the energy crisis as the most important problem facing the private sector.
3. There is a need to ensure a stable macroeconomic environment to guarantee certainty in investment and business planning. In this regard, sound public financial management is critical in creating a more conducive environment with respect to the cost of credit, exchange rate and lower inflation.
4. Serious interventions are needed to address the unemployment issue at the firm level. Whiles improving the business environment will help firms to re-engage workers, firm level incentives such as tax rewards for employment generation or expansion would be helpful.