

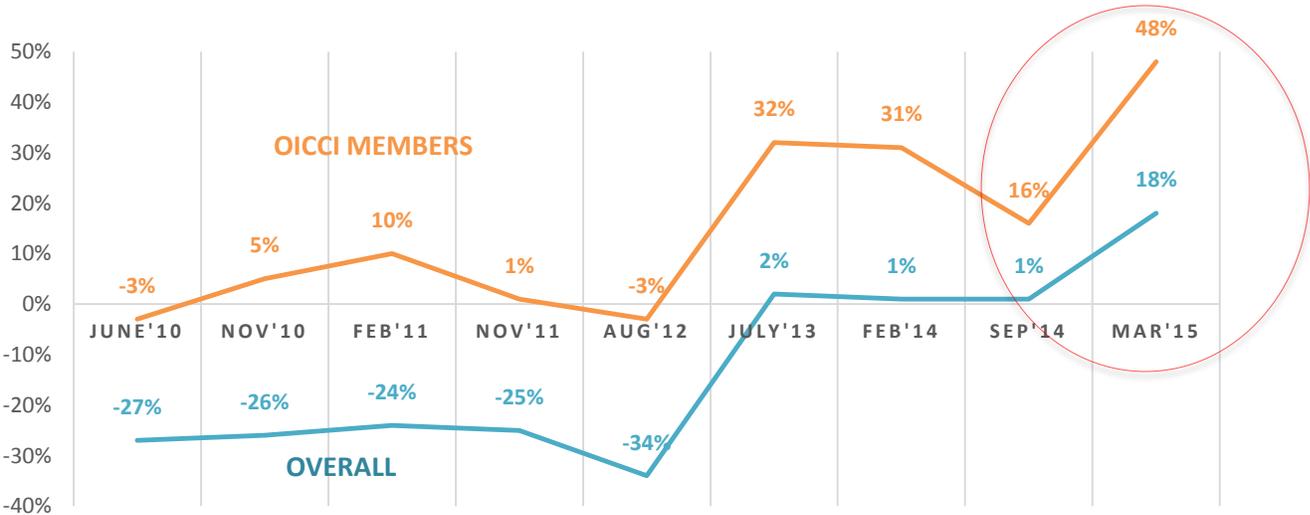
OICCI Business Confidence Index Wave 10: HIGHLIGHTS

OICCI has announced the results of the Business Confidence Index Survey (BCI) wave 10 conducted throughout the country in March 2015. The overall BCI score was recorded at positive 18%, significantly higher than the 1% recorded in September 2014. The OICCI March 2015 Survey shows a strong improvement in business confidence across all segments of the industry. The primary factors that contributed towards stronger confidence included

- Sharp reduction in cost of doing business – the 60% decline in international oil prices and all other commodities has helped to reduce petroleum prices in Pakistan, inflation has reduced to a 11 year low which allowed SBP to cut policy rates by 200bps since October 2014.
- The tone down in confrontational political environment which was at a high pitch at the time of the wave 9 survey and emergence of a new broader political consensus amongst key political stakeholders - leading to end of street protests against government and increased focus on economic policy making
- Resumption of the IMF program, which was stalled in September 2014 as government delayed implementation of tough reforms including new tax and cut back in subsidies
- Higher investment flows from with successful privatization of SOEs and launch of the US\$ 1bn Sukuk in December 2014
- Expectations of large investments from Chinese investors over the medium term for development of the Pak China transport corridor
- Good business operational results of 2014 announced during first quarter 2015,
- Expectations from the upcoming FY16 Budget
- Reduction in load shedding during the winter months and expectations of improvement in energy situation in the coming months
- Improvement in security and Law & Order conditions with targeted operations in different parts of the country

The confidence level of OICCI members participating in the BCI showed a significant growth from 16% in September 2014 to 48% in the latest wave 10 survey.

Business Confidence Score – Graph 1



The improvement in the business confidence was witnessed across all segments

- The Retail sector was the most bullish moving from -11 percent in Wave 9 to 15 percent in the latest poll, thus recording the highest increase of 26 percent in confidence. This is driven by higher consumption driven spending by households and businesses as a direct result of lower inflation
- The overall score was also largely boosted by the pickup in confidence of the Services industry, which was recorded at 31% in March 2015 vs. 7% in September, 2014
- The business confidence of manufacturing sector increased to 11% in March 2015 from positive 5% in September, depicting a move back to an expansionary cycle.
- New sales order index witnessed a significant improvement – with score of 39% in March vs. 5% in the last survey
- New jobs index reported also significant improvement with 16% business reporting new jobs hiring's over the next 6 months vs. 8% in the previous survey
- New Investment index also shows improvement with score of 6% vs. -5% in the last survey.

Substantially higher business confidence has been witnessed particularly in metropolitan cities across the country. Going forward, the business confidence for the next six months is largely positive in all sectors, expecting an improvement in security environment, reduction in load shedding and better government policies. While 47% businesses expect that their operations will remain the same over the next six months, 43% expect an increase. This is a recovery in comparison with the expectations in previous survey in September 2014, when 54 percent businesses expected their operations to remain static and only 30 percent expected an increase.

The overall business confidence is very positive and offers an excellent opportunity to the authorities who must ensure this business confidence is sustained and translates into new investments and new jobs:

- Tax regime must change – autonomous FBR
- Energy policy must be effective
- Law & Order must be further improved

Business Confidence – Past 6 Months

Overall, the business confidence scores have improved within the country over the past six months. Respondents showed more confidence at all levels (country level, city level, industry level, and own company level) with improvement in scores for all three sectors.

The biggest challenges, faced by businesses, during the past six months were energy crisis (56%) and law & order problems (44%). There was a significant increase in respondents, who cited inflation (42%), and rules and regulations (22%) as causes of deteriorating business conditions. The growth/decline in number of employees is almost identical to that witnessed in the last wave (September 2014).

Business Confidence – Next 6 Months

Compared to September 2014, businesses think the future is bright. Business confidence has increased across all levels (global, country, industry, city, own company). This shows that businesses have a high level of optimism for next six months.

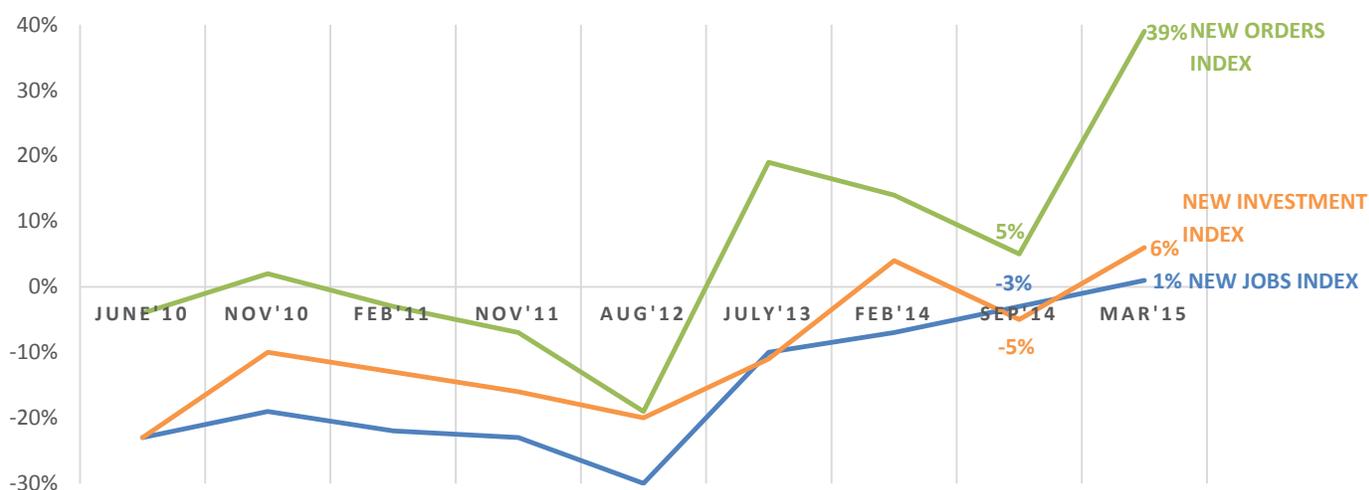
63% businesses in the survey are expecting an improvement in business situation mainly because they are expecting an improvement in law and order situations (55%) and are also hopeful with the government's new policies (44%).

Over the next six months, businesses foresee energy crisis and law and order as the two biggest challenges. Most of the companies believe that their employment levels will remain constant over the next six months.

Future Business Outlook

Another focus of this wave 10 was to gauge the investment appetite of the respondents. It was observed that the economy is in an expansionary mode. Against only 30% in the previous survey 43% respondents expect the business to expand in the next six months. Only 29% of the respondents have plans for capital investment to expand capacity while the remaining 71% have no plan for expansion. When questioned to share reasons for not expanding, the energy constraints, weak external demand, security concern and government policy posed a formidable challenge for growth outlook.

New orders, Investment and Jobs Index – Graph 2



Businesses are neutral to the availability of banking credit because it is not the main source of funding for their investment plans. These factors were rated low on importance.

About 30% business entities expect FDI to come to Pakistan, mainly in manufacturing and services sectors citing tax incentives and rising market demands as key drivers of growth and investment in their businesses. Moreover, local investment is considered the main source of investment for business entities.

Confidence in Government

64% respondents opine that there are more growth opportunities as opposed to threats (36%) for their businesses today compared to 2 years ago. Retailers have the highest level of trust in the current government, while services have the highest level of distrust in the government citing bribery and volatile energy costs as major threats. The top ranked law and order issue impacting the business negatively are street crimes.

About OICCI

OICCI is the collective voice of 197 leading foreign investors belonging to 35 countries and include several Fortune 500 companies operating locally. OICCI members collectively contribute approximately one-third of the total revenues collected in the country besides facilitating transfer of technology and skills and providing employment to a sizeable number of people. For further information, please contact shaiq.queshi@oicci.org or visit www.oicci.org.