

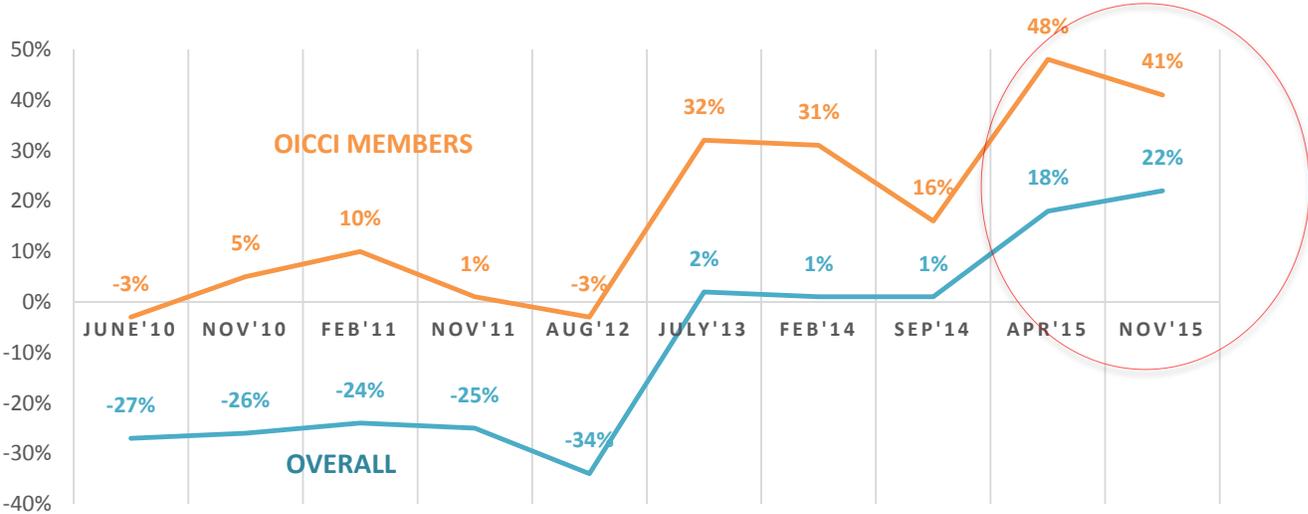
OICCI Business Confidence Index Wave 11: HIGHLIGHTS

OICCI has announced the results of the Business Confidence Index Survey (BCI) -wave 11- conducted throughout the country in October/November 2015. The overall BCI score was recorded at positive 22%, higher than the 18% recorded in April 2015. The OICCI November 2015 Survey shows improvement in business confidence across all segments of the trade and industry. The primary factors that contributed towards stronger confidence included:

- Improvement in security and Law & Order conditions in different parts of the country, especially in Karachi.
- Sharp reduction in cost of doing business – the 60% decline in international oil prices has significantly reduced petroleum prices in Pakistan and reversed the inflation rate to a low one digit. The average July-October, 2015 inflation at 1.7 percent is lower than the 7.1 percent average inflation in the corresponding period of last year.
- China-Pakistan Economic Corridor (CPEC) is likely to gather pace soon and expectations of investments related to CPEC would strengthen the external sector outlook over the medium to long term.
- SBP has cut the discount rate to a historic low and consequent reduction in financing costs will support economic activity.
- Reduction in load shedding and new projects in the energy sector have raised expectations of improvement in energy situation in the coming months.

The confidence level of OICCI members participating in the BCI survey went against the tide with a downturn from 48% in the last wave 10 survey to 41% in the latest wave 11 survey. This could be due to strong resentment on the imposition of the new “Super tax” at rate of 3 and 4 percent in the 2015-16 Finance Act which impacts most of the large foreign investors, who are also frustrated with the long delays in the tax refunds process. Given the high demand of energy resources, energy shortages and increase in electricity tariffs may also have had an impact on the confidence score of OICCI members putting a negative momentum on manufacturing and industrial sector.

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 15 percent in Wave 10 to 25 percent in the latest poll, thus recording the highest increase of 10 percent in confidence. This is due to higher consumption driven spending by households and businesses as a direct result of lower inflation
- The overall score was also improved by the minor increase in confidence of the Services industry, which was recorded at 34% in November 2015 vs. 31% in April, 2015
- The business confidence of manufacturing sector increased to 13% in November 2015 from positive 11% in April, depicting a move back to an expansionary cycle.
- New sales order index witnessed a significant drop – with score of 24% in Wave 11. This drop seems to be cyclical as it had increased from 5% to 41% in Wave 10. New jobs index also slowed down with 8% businesses reporting new jobs hiring's over the next 6 months vs. 16% in the previous survey. Similarly, New Investment index also shows weakening with score of -2% vs. 6% in the last survey.
- Overall, confidence score reflect real estate (68%), Tobacco (38%) and Transport & Communication (37%) as the most flourishing sectors followed by Petroleum (32%), Chemical (31%) and Finance (31%) sectors. Among all sectors, textile (-15%) and non-metallic (11%) are the most conservative sectors

Substantially higher business confidence has been witnessed particularly in metropolitan cities across the country. Amongst cities, Sukkur (56%), Quetta (35%), Karachi (29%), and Rawalpindi/Islamabad (24%) have positive outlook. While, Faisalabad (-15%) and Sialkot (-8%) because of textile sector & cement sector have negative outlook respectively.

Going forward, the business confidence for the next six months is largely positive in all sectors, expecting further improvement in security environment, reduction in load shedding and better government policies. While 50% businesses expect that their operations will remain the same over the next six months, 33% expect an increase. This is a slight decline in comparison with the expectations in previous survey in April 2015, when 47% businesses expected their operations to remain static and 43% expected an increase.

The overall business confidence is very positive and OICCI believes that it offers an excellent opportunity to the authorities to ensure that this confidence is sustained and translates into new investments and new jobs by focusing on:

- Improvement in current tax regime – through judicious implementation of Tax Reforms Commission recommendations
- An effective energy policy
- Further and sustained improvement in Security, Law & Order

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 and city level) with improvement in scores for all three business sectors.

Businesses that felt business conditions had improved in the last 6 months attributed this improvement mainly to vastly improved security conditions and better facilities from the government.

However since the survey is not one dimensional, many respondents have also voiced concerns stating that the biggest challenges, faced by businesses, during the past six months were energy crisis (46%) and increase in prices (40%). The other key concerns cited were Security (36%), and rules and regulations

(20%) as causes of deteriorating business conditions. The decline in number of employees is almost 4% compared to the last wave (April 2015) mainly in retail followed by manufacturing sector.

Business Confidence – Next 6 Months

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.

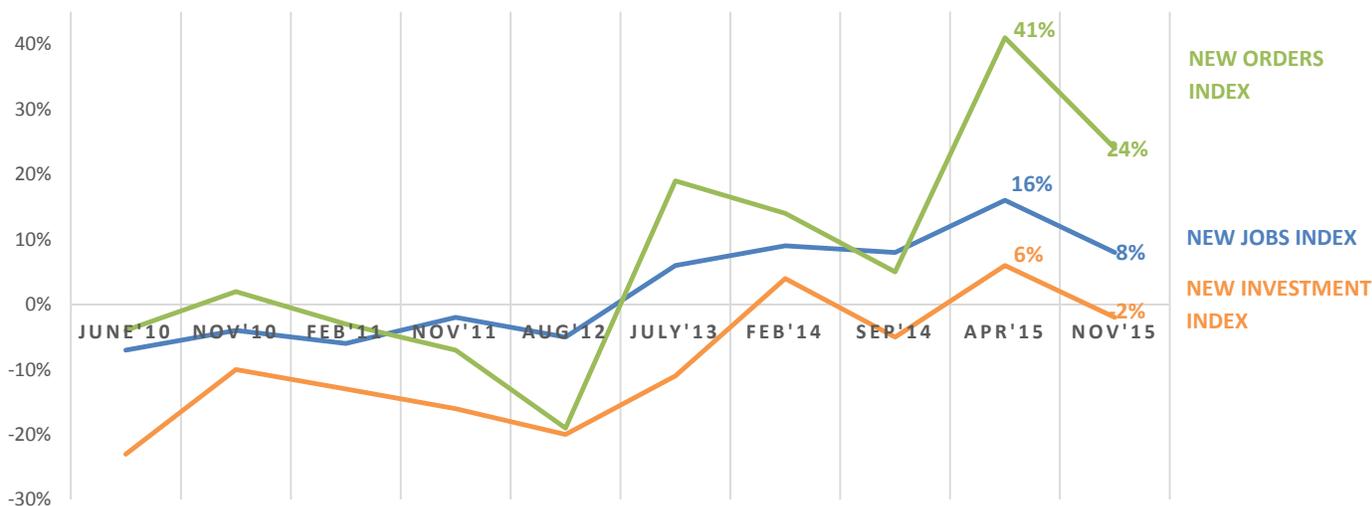
Most businesses in the survey are expecting an improvement in business situation mainly because they are expecting further improvement in law and order situations (69%) and are also hopeful for improvement in energy supply (45%).

All businesses (including those who were optimistic and pessimistic of future business conditions) are of the view that energy crisis and law & order issue will remain the major challenges going forward. Most of the companies believe that their employment levels will slightly increase over the next six months. However, the projected increase of 8% is lower than the 16% in the last survey.

Future Business Outlook

Another focus of BCI Wave 11 was to gauge the investment appetite of the respondents. It was observed that the economy’s expansionary mode has somewhat gone down. Compared to 43% in the previous survey, only 33% respondents expect the business to expand in the next six months. Only 26% of the respondents have plans for capital investment, mainly to increase capacity while the remaining 74% have no plan for expansion. When questioned to share reasons for not expanding, respondents mentioned the energy constraints, government policy, weak external demand and security concerns.

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 47% 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 funding is considered the main source of investment for business entities.

Confidence in Government

61% respondents opine that there are more growth opportunities as opposed to threats (34%) for their businesses today compared to 2 years ago. Services have the highest level of trust in the current government, while retailers have the highest level of distrust in the government citing bribery and volatile energy costs and supply chain disruption as major threats. The top ranked law and order issue impacting the business negatively are street crimes followed by kidnapping for ransom and threats are key law and order issues consider by business entities.

Conducted through field interviews in all four provincial capitals, Islamabad and key business towns across the country, the survey is a feedback from representatives of all business segments in Pakistan including retail marketplace, and covers roughly 80 percent Gross Domestic Product.

About OICCI

The OICCI is the collective voice of major foreign investors in Pakistan. The 195 OICCI members, from 35 different countries, have a presence in 14 sectors of the economy and contribute over one third of Pakistan's total tax revenue, besides facilitating transfer of technology and skills and providing employment to a sizeable number of people. 57 OICCI member companies are listed on the Karachi Stock Exchange and 50 members are associates of the 2015 Global Fortune 500 companies. Besides their business operations the OICCI members realize their corporate social responsibilities and are major contributors to various CSR activities.

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