

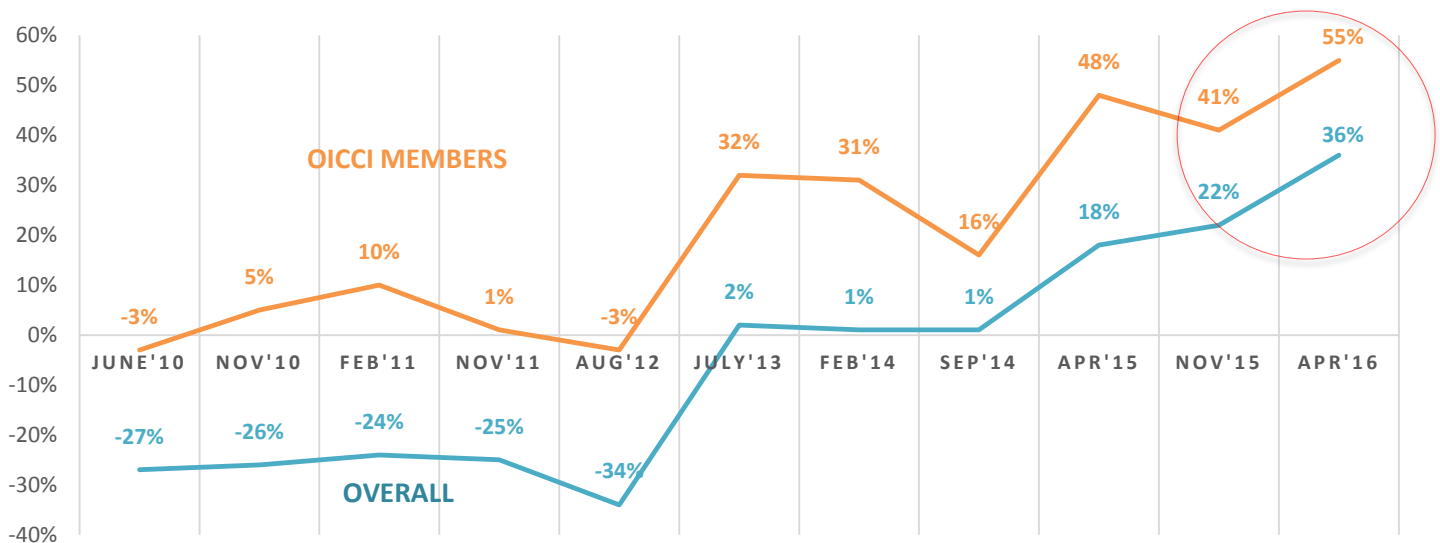
# OICCI Business Confidence Index Wave 12: HIGHLIGHTS

OICCI has announced the results of the Business Confidence Index Survey (BCI) -wave 12- conducted throughout the country in March/April 2016. The overall BCI score was recorded at positive 36%, significantly higher than the 22% recorded in November 2015. The OICCI April 2016 Survey shows improvement in business confidence across all segments of the trade and industry. The primary factors that contributed towards stronger business confidence were, more or less, similar to the ones recorded in the previous survey:

- Significant improvement in security and Law & Order conditions in different parts of the country, especially in Karachi.
- Reduction in load shedding - especially to the industrial sector. Moreover, regular media coverage of coal based (Thar and imported), LNG and other major upcoming energy projects, including those under the China-Pakistan Economic Corridor (CPEC), also boosted the confidence level.
- Better facilities – metro bus projects and road improvements in major cities
- Reduction in cost of doing business – the decline in international oil prices has significantly reduced petroleum prices in Pakistan and the pass-through of low prices by the government has contributed in pushing down the CPI inflation to a multi-decade low. The average July-March, 2016 inflation at 2.6 percent is lower than the 5.1 percent average inflation in the corresponding period of last year.
- SBP has maintained the discount rate at an historic low level and consequent reduction in financing costs, which is an important factor for new investment and increased economic activity.

The sentiments of the leading foreign investors, represented by the OICCI members, who were also part of the survey, kept pace with the overall increase, by recording a similar increase of 14 percent, to go up to a record level of 55 percent from 41 percent in the Wave 11 results.

**Business Confidence Score – Graph 1**



The improvement in the business confidence was witnessed across all segments:

- The business confidence of manufacturing sector spiked to 30% from positive 13% in November 2015, depicting a move back to an expansionary cycle, thus recording the highest increase of 17 percent in confidence
- The Retail sector remained bullish moving from 25 percent in Wave 11 to 38 percent in the latest field survey. This is due to higher consumption driven spending by households and businesses as a direct result of lower inflation.
- Services sector also reported a healthy increase of 8% in the overall confidence score which was recorded at 42% in April, 2016 vs. 34% in November 2015.
- New sales order index witnessed a significant rise – with score of 53% in Wave 12. This had decreased from 41% to 24% in Wave 11.
- New jobs index also showed positivity with 26% businesses reporting new jobs hiring's over the next 6 months vs. 8% in the previous survey. Similarly, New Investment index also shows improvement with score of 13% vs. -2% in the last survey
- Overall, confidence score reflect that real estate (81%), Finance (68%), Petroleum (57%), and Food (47%) as the most flourishing sectors followed by Chemical (37%), Community, Social and Personal Services (35%) and Transport and Communication (24%) sectors. Among all sectors, Tobacco (9%), Textile (15%), Motor Vehicles (15%) and non-metallic (17%) are the most conservative sectors.

Substantially higher business confidence has been witnessed particularly in metropolitan cities across the country. Amongst cities, Sukkur (75%), Quetta (72%), Rawalpindi/Islamabad (60%), Lahore (55%), and Karachi (33%) have positive outlook. While, Sialkot (-32%), Faisalabad (-13%), Peshawar (-5%), and Multan (-2%) 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, improved energy supply and reduced level of load shedding and better government policies. While 43% businesses expect that their operations will remain the same over the next six months, 53% expect an increase. This is progress in comparison with the expectations in previous survey in November 2015, when 50% businesses expected their operations to remain static and 33% 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 timely resolution of tax refunds, judicious implementation of Tax Reforms Commission recommendations and longer term incentives for new investment/investors
- Timely completion of energy projects
- Visible measures to improve governance through predictable, transparent and consistent implementation of policies
- Further and sustained improvement in Security, Law & Order

## **Business Confidence – Past 6 Months**

The Business Confidence survey takes into account the respondents view of the overall business environment globally, in Pakistan, in the city and the industry they operate and finally of their own business.

During Wave 12, the overall business confidence scores have marginally declined both for global, country and city level for all three business sectors. However, significant improvement was seen at the industry and own business level.

Businesses that felt business conditions had improved in the last 6 months attributed this improvement mainly to vastly improved security conditions, better energy supply and better facilities from the government. The survey respondents have reported a net 19 percent increase in employment during the past six months with major increase being reported in services and manufacturing sectors. This compares favorably with a net 3 percent decrease in employment reported in the previous November 2015 survey.

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 (43%) and increase in prices (42%). The

other key concerns cited were Security (41%), and poor facilities by government (38%) and rules and regulations (34%) as causes of deteriorating business conditions. Businesses are seriously concerned with operational issues like delays in tax refunds, lack of reforms in rules and regulations in line with changing environment, cumbersome procedures and lack of accountability and slow decision making process. Pakistan’s deteriorating rating in the World Bank’s annual Ease of Doing Business survey provides considerable details on the above operational constraints.

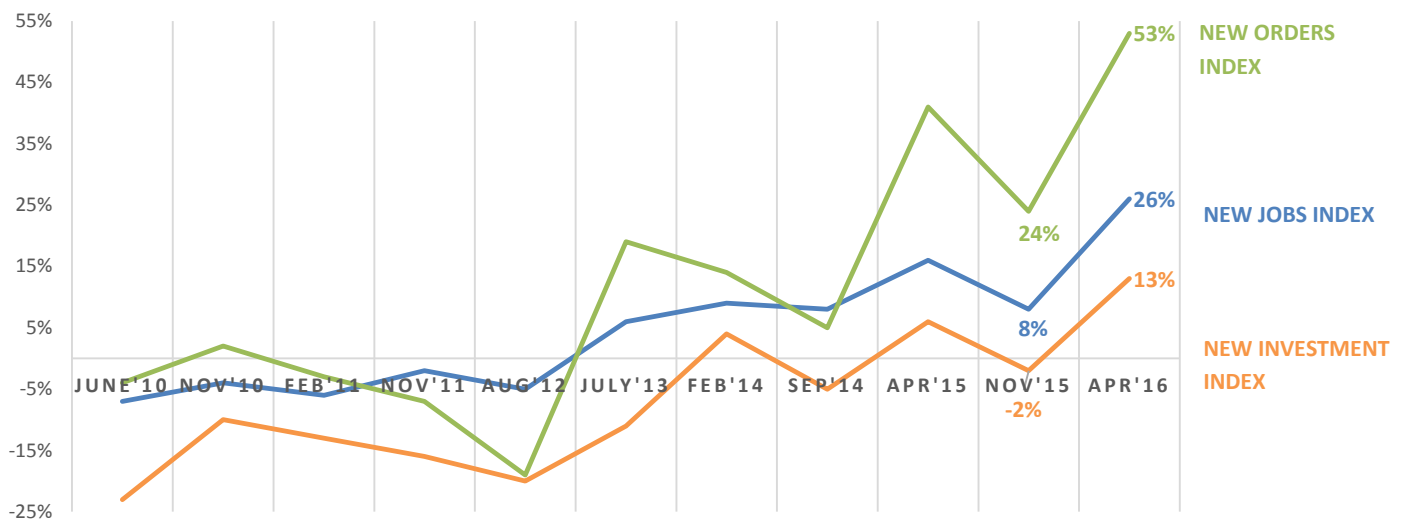
### Business Confidence – Next 6 Months

Business confidence has increased across many levels (country, industry, city, own business). 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 with expected improvement in law and order situations (74%) and are also hopeful for improvement in energy supply (55%).

All businesses (including those who were optimistic or pessimistic of future business conditions) are of the view that energy supply and law and order issue will remain the major challenges going forward. 32% of the respondents believe that their employment levels will slightly increase over the next six months.

### New orders, Investment and Jobs Index – Graph 2



### Future Business Outlook

Another focus of BCI Wave 12 was to gauge the investment appetite of the respondents. The feedback was very positive with 53% of the respondents expecting their business to expand in the next six months, as compared to 33% in the previous survey, and 40% of the respondents have plans for capital investment, mainly to increase capacity. Respondents who did not anticipate new capital investment mentioned poor quality standards, insufficient demand, unsupportive government policy, security concerns and the energy constraints as the main impediments.

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 38% business entities expect FDI to come to Pakistan, mainly in manufacturing, energy 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. 76% respondents consider that there are more growth opportunities as opposed to threats (22%) for their businesses today compared to 3 years ago.

## About the Survey

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 Pakistan 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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