

BUSINESS CONFIDENCE INDEX SURVEY



Wave 20 – August 2021



**Overseas Investors
Chamber of Commerce
and Industry (OICCI)**

OICCI Business Confidence Survey wave 20 – Highlights

OICCI announced the results of the Business Confidence Index Survey (BCI) - Wave 20, conducted throughout the country during May to July 2021. The last similar survey, BCI Wave 19, was done in May to June 2020.

OICCI BCI Survey, conducted periodically, is a comprehensive feedback from the frontline business stakeholders in respect of their views on the environment and opportunities impacting their respective business operations. The feedback covers business environment at regional, national, sectorial, and own business entity levels in the past six months, as well as the anticipated business and investment environment in the next six months. This survey is done face to face, across the country, covering 80% of the GDP, with higher weightage given to key business centers like Karachi, Lahore, and Faisalabad.

Overall Business Confidence Score (BCS) has increased significantly by 59% and now stands at 9% positive vs negative -50% in Wave 19. It may be noted that a positive BCI was last seen during wave 16 (Apr'18).

Despite challenging macro-economic indicators in a couple of factors like the high exchange rate, increased level of inflation partially offset by reduced bank interest rate, the Wave 20 feedback indicates high optimism of the business community moving forward contrary to the pessimism in the previous Wave 19. The key drivers of this optimism, and turnaround in sentiments, are the business community's strong positive perception towards the future specifically the next 6 months. Through proactive economic and social policy measures taken by the authorities supported by the roll out of vaccines, the government appears to have succeeded in building confidence among the key economic stakeholders. The manufacturing sector has gradually resumed its activity. The services sector, as well as the retail and wholesale sector were also severely affected during Covid 19 related strict lockdowns and enforcement of SOPs, resulting in low foot fall in local markets, accompanied by reduced business hours. Now a developing trust in current government's policies, improvement in law-and-order situation and the relaxation in lockdowns, which has enabled business entities, as well as the public to go "back to normal", has increased people's confidence and they believe that the next 6 months will fare better than the previous 6 months leading to increases in sales volume, profits and return on investment.

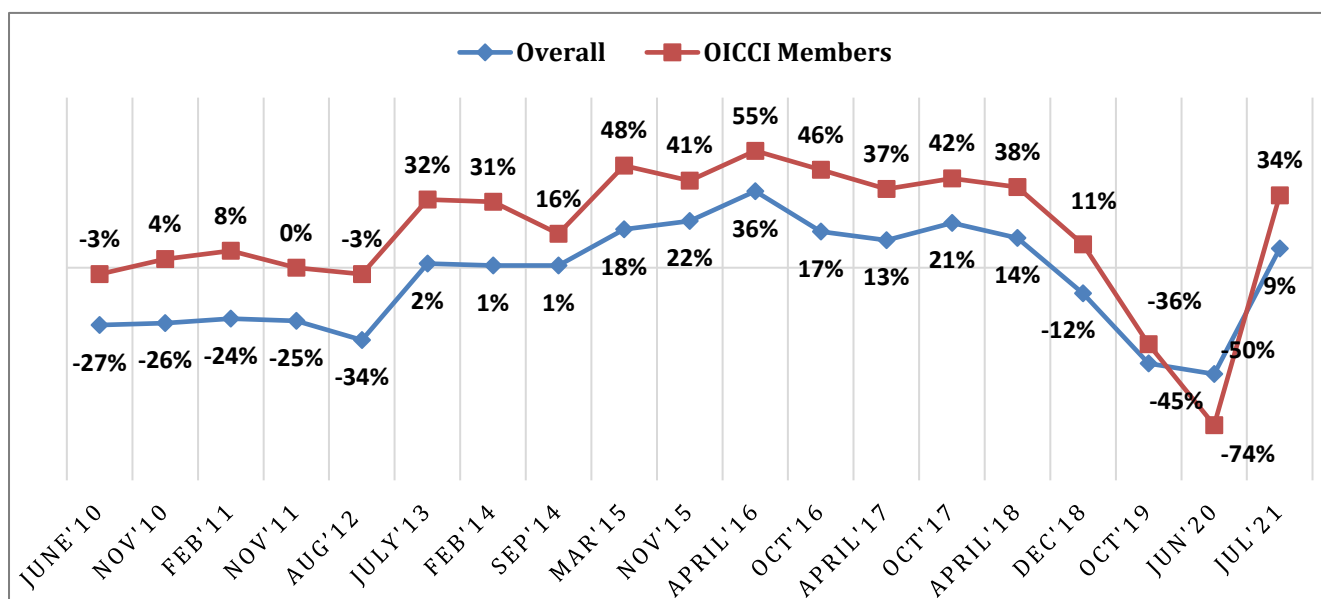
The survey was conducted by an internationally known pollster for Overseas Investors Chamber of Commerce and Industry (OICCI) to get a feedback on the Business Confidence Index (BCI) from economic stakeholders representing 80% of the GDP of the country with remaining 20% being engaged in agriculture. The survey sample consisted of 40% respondents from Manufacturing sector, 35% from the Services sector and 25% from the retailers / wholesalers.

The confidence of the business community across Pakistan shifting over from negative territory in last survey to positive territory is driven by all the three segments, manufacturing, services, as well as the retail/wholesale sectors, with the first two recording an increase of 65% each, (manufacturing from -48% to positive 17% and services from -59% to positive 6%) whilst the retail/wholesale sector went up by 44% (from -44% to 0). As the lockdown restrictions have been lifted many of the manufacturing concerns have gone back to their 100% capacity of production and are able to sell their product even during the lockdowns, which positively impacts all business sectors. Retailer and Wholesalers were largely affected by the Covid – 19 restrictions as their business hours were cut short

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resulting income, cash flow and other issues. This segment also believes that the next 6 months will fare better with more sales, profits, and better situation overall for Pakistan.

Business Confidence Score



Key factors impacting the BCS Wave 20 results comprise of:

Feedback from the respondents who were positive:

- The main driving force is the significant increase in optimism of respondents for the next 6 months (N6M), in respect of the following factors:
 - City's business situation: +21%
 - Industry business situation: +19%
 - Company's business situation: +20%
 - Sales volume increase: +20%
 - Profit increase: +22%
 - Return on Investment increase: +19%
- On a comparison between pre and post fiscal budget data, the business confidence index post June 12, 2021 fiscal budget was significantly higher, as respondents surveyed after the Budget announcement were more elated and more strongly believed that in the next 6 months most of their business related KPIs will improve.
- Government policies, including continuing rationalization of import duties on raw materials, incentives for food sector, auto sector and FMCGs, announced in the Finance Act 2021, prospects of overall economic growth, improvement in law-and-order situation, adequate supply of electricity, and the ease of CV 19 lockdowns, including encouraging trading activities are the some of the main reasons behind the positive sentiments.
- Mass vaccinations drives conducted in Metro cities has contributed towards manufacturing activities to regain almost normal pre-Covid production capacity.
- Individual confidence score of all sectors recorded an increase during Wave 20, with the Manufacturing and Services sector both registering increase of +65% and are positive at

17% and 6% respectively. The retailer and wholesaler sector BCI stands at 0% in Wave 20 an increase of 44% from Wave 19 when it was -44%.

- In Metro cities, the overall business confidence index stands at +11% in Wave 20, an increase of 57% as compared to -46% in Wave'19. As majority of manufacturing concerns are in these cities the resumption of 'normal' business activity has given a fillip to their views on Global, Pakistan's, City and Own company's business situation in the next 6 months.
- In Non-Metro cities, the business confidence index stands at 0% in Wave 20, a difference of +38% as compared to Wave'19. Major factors of change in non-metros include City's situation in past 6 months, Company's business situation in the past 6 months and prospects of capital investment in the next six months

Respondents who are optimistic

Wave 20 results indicated that sentiments of respondents have undergone a dramatic change with 44% respondents (vs only 13% in wave 19) showing positivity about the business environment. Following key aspects were identified by respondents for their positive sentiments.

Past Six Months			Key Factors for increase in confidence			Next Six Months		
Wave 19	Ranks	Wave 20				Wave 19	Ranks	Wave 20
Increase in Demand	1	Better Government Policies				* Our businesses would remain open after COVID19 pandemic /lockdown	1	City Governance and Policies
Better Economic Growth	2	Overall Economic Growth				* Better Provincial Govt. policies and support to business community after COVID19 pandemic	2	Improvement in Law & Order / Security Situation
* Our businesses were open during COVID-19 pandemic /lockdown	3	Improvement in Law & Order Situation				Increase in Demand	3	Improvement in Infrastructure
Better Governance & Policies	4	Incentives in Fin Act'21 could increase FDI Inflow				* The demand of items we produce /market will increase after lockdown	4	Energy Situation
Improvement in Rules & Regulations	5	Energy Situation (adequate supply of electricity etc)				* Better Federal Govt. policies are support to business community after COVID-19 pandemic	5	Encroachment Drive
Better Business Alliances	6	Improvement in Perception of Pakistan internationally				Better Governance & Policies	6	Covid-19 cases going down/ lockdowns lifted/ Vaccination

*: New reasons added in W19

Respondents who are pessimistic

The 35% respondents who remained pessimistic for the future, believe that lack of infrastructure and public transport in cities of Pakistan is a problem that still affects their business negatively. They also anticipate more lockdowns and increased covid cases in the coming months and deterioration in the law-and-order situation.

There was also a dramatic drop in respondents who remained negative as compared to Wave 19 (-35% vs -63%). Following key aspects were identified by respondents for their negative sentiments.

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Past Six Months			Key Factors for continuing pessimism			Next Six Months		
Wave 19	Ranks	Wave 20				Wave 19	Ranks	Wave 20
* Due to COVID-19 pandemic /lockdown	1	Ineffective Commercial and Trade Policies				* Due to COVID-19 pandemic /lockdown	1	Lack of City Infrastructure
* Lack of Provincial Govt. policies & support to businesses during COVID-19 /Lockdown	2	Energy Crises & High Electricity Cost				* Due to COVID-19 the demand of items declined	2	Negative impact of Covid19/ Lockdowns
* Lack of Federal govt. policies & support to businesses during COVID-19 /Lockdown	3	Political Instability				* Lack of Provincial Govt. policies & support to businesses post COVID-19 Lockdown	3	Security, Law & Order Situation
* Due to COVID-19 the demand of items declined	4	Lower Exports				* Lack of Federal Govt. policies & support to businesses post COVID-19 Lockdown	5	Lack of Public Transports
Bad Governance and Policies	5	Concern on Law & Order Situation				Inflation	6	Inflation/ High Products rates
Lack of Effective Com.& Trade Policies	6	Higher Imports						

* : New reasons added in W19

BCI OF OICCI MEMBERS: The BCI of a limited number of OICCI members, randomly selected as part of the three segments of the survey, is even more positive than the national average. The OICCI members Business Confidence is 34% positive vs 9% positive nationally which is a remarkable turnaround from negative 74% in the previous Wave 19. The members have scored very high on each attribute (both previous 6 months and the next 6 months) of BCI with an average increase of 108% from Wave 19.

Survey respondents when asked about their confidence on the Economy, 53% stated more confidence vs 12 % in Wave 19 and only 36% were less confident in Wave 20 vs 70% in Wave 19.

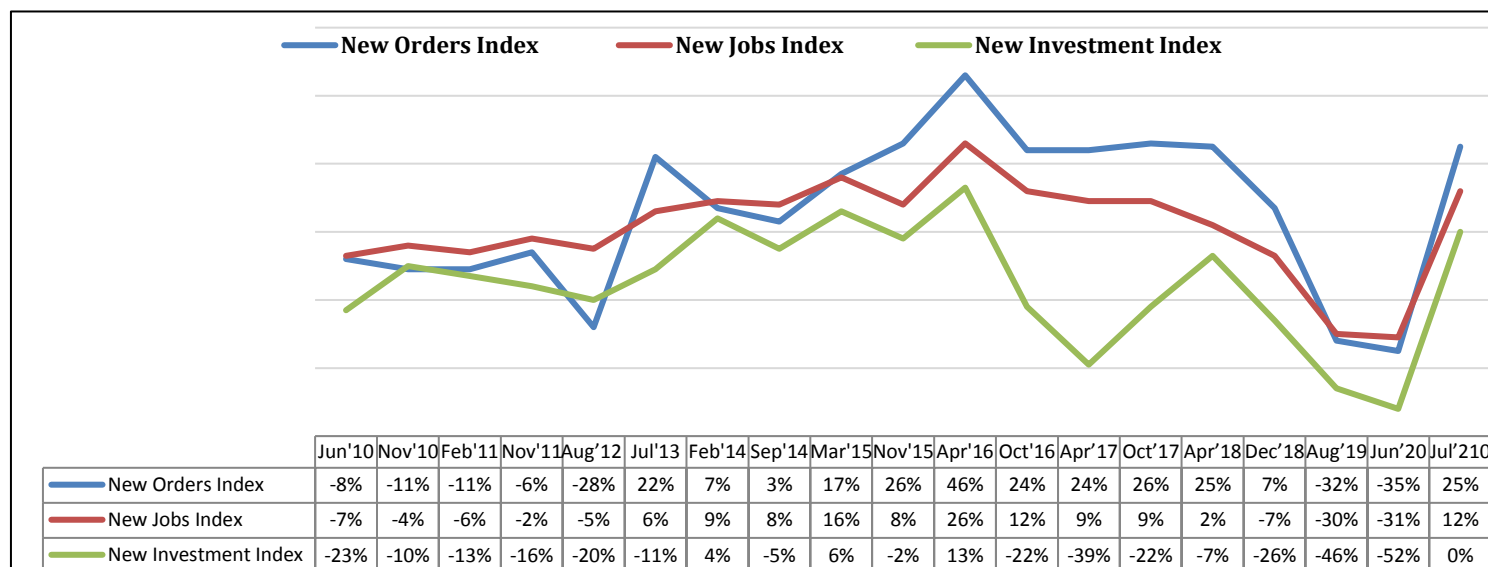
Reasons for increase in positivity among OICCI members

The BCI of OICCI members interviewed during the survey stands at 34% (previously at -74%). This exceptional increase is mainly due to business entities now settling down and going back to business as usual after the uncertainties of first wave of Pandemic. The OICCI members have scored very high on each attribute (both previous 6 months and the next 6 months) of BCI resulting in an increase of 108% from wave 19. This huge increase in confidence is driven from the following:

- Global business situation score in next 6 months has gone up to 62% vs -73% in the previous wave 19 conducted last year (a change of +135%)
- Pakistan business situation score in the next 6 months is 52% vs -73% (+125%)
- Industry business situation in next 6 months 57% vs -61% (+118%)
- Expansion of business score in next 6 months 57% vs -65% (+122%)
- Sales volume increase score in next 6 months 66% vs -65% (+131%)

Future Business Outlook

New Orders, Investment and Jobs Indices



Expansion (New Orders): Overall confidence index in respect of expansion plans of businesses in next six months has gone up by a huge 60% (from -35% in W19 to +25% in W20) as opposed to a decline of -3% (from -32% in W18 to -35% in W19) reported in last survey. Services sector which in the last three surveys was getting very skeptical to plan expansions going from -19% in W17 to -38% in W18 to -48% in W19 has also become positive and recorded a positive of 22% in W20.

New investment: During the BCI Wave 20 survey, 39% respondents indicated new investments as opposed to only 12% in Wave 19 indicating a very big turnaround in sentiment in this area also. An equal number of respondents (-39%) have given a negative feedback also (-64% in the previous survey) for a net score of 0 (-52% in wave 19). The net BCS for new capital investment in the next six months has gone up by 12% in manufacturing sector vs negative of 48% in Wave 19, whereas in the Services net BCS is -16% (-55% in wave 19), and in the Retail & Wholesale trade the appetite for new capex is marginally positive with a net of BCS of 3% (-52% IN wave 19).

New Jobs: During the BCI Wave 20, the BCS for growth in Total Employees is 12% positive as opposed 31% negative in Wave 19.

Thus, in all the above three key areas the positive sentiments are quite significant and visible.

As per the respondents, GOP must form new institutions/businesses/industries (76%) and create more job opportunities (61%) in order to absorb the growing number of unemployed youths. Other suggestions included, encouraging self-employment (63%), improving the education system (53%) and ensuring good governance (47%).

Confidence on Economy in Relation to Business in Next 12 Months

Overall, 16% of the respondents informed that they have much more confidence in the economy with respect to their business over the next 12 months (Only 1% in Wave 19 expressed similar views). This is the first time since April 2016 that confidence in this area has recorded a double-digit positivity.

Addressing Threats to Business Growth

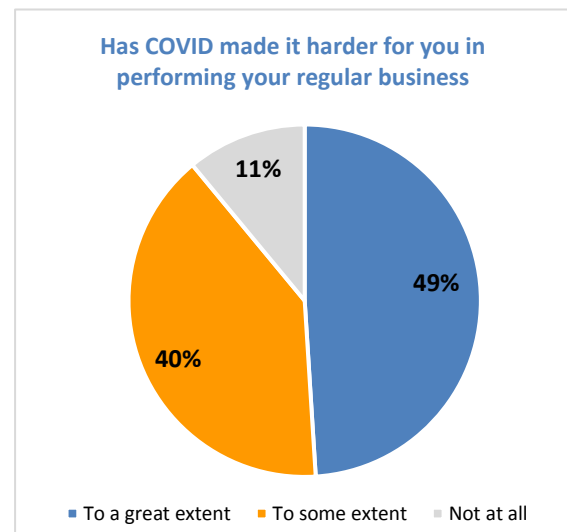
The three major threats to business growth, respondents identified, are corruption (67%), volatile energy costs (66%) and currency devaluation (60%) which could potentially slow down business growth in Pakistan, and the government should take more stern measures to address these issues.

CONFIDENCE IN FOREIGN DIRECT INVESTMENT IN PAKISTAN

Foreign direct investment (FDI) has been very little in Pakistan for the last several years. The business community believes that the high cost of doing business, improper implementation of some policies and inadequate basic infrastructure are main culprits of this declining trend. **However, majority of the respondents believe that with the new policies and the fiscal budget in place the foreign direct investment in the country will rise in the next 12 months.**

Covid-19 Threat

- 89% of the respondents believe that COVID made it difficult to perform day to day business operations.
- Major issues faced during lockdown were less business hours/customers, closure of shops, shortage of public transport, decrease in sale/demand, police disturbance, supply problem and stringent city government policies.
- However, sentiments have now changed, and respondents now have a positive attitude towards city governance, improvement in law-and-order situation and believe that decline in COVID 19 cases would result in better prospects in Next 6 months for their business.
- For the respondents that still have negative outlook for next 6 months, they believe that Covid 19 and high rate of inflation will remain a challenge for them in the coming months.



About OICCI

The OICCI is the collective voice of major foreign investors in Pakistan. The over 200 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 2020 Global Fortune 500 companies. Besides their business operations the OICCI members realize their corporate social responsibilities and are major contributors to various CSR activities benefitting 6.2 million persons from underprivileged communities in 2020.