



OVERSEAS INVESTORS CHAMBER OF COMMERCE AND INDUSTRY

BUSINESS CONFIDENCE INDEX SURVEY



Wave 21 – June 2022

OICCI Business Confidence Index Survey Wave 21 – Highlights

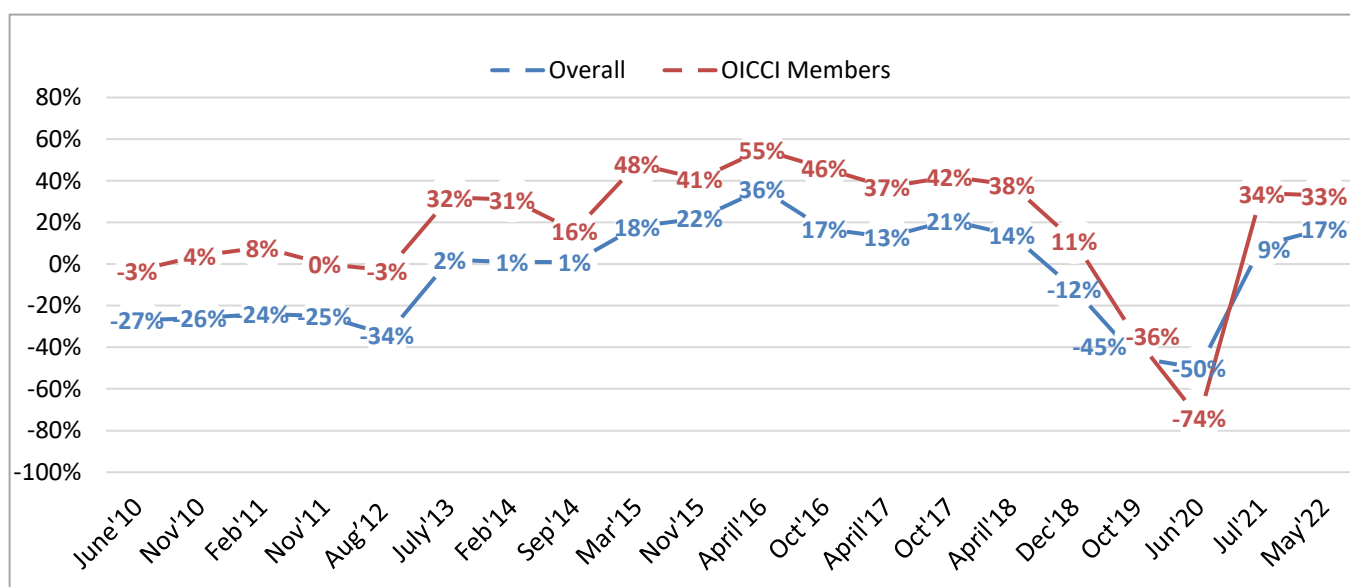
OICCI announced the results of the Business Confidence Index Survey (BCI) – Wave 21, conducted throughout the country during March to April 2022. The last similar survey, BCI Wave 20, was done in May to June 2021.

OICCI BCI Survey, conducted periodically, is 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 (P6M), as well as the anticipated business and investment environment in the next six months (N6M). 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, Islamabad and Faisalabad.

On an overall level, BCI for Pakistan as of end April 2022 has increased to 17% (previously at 9% during June'21). Overall, 8 % net increase in Business Confidence over the last survey is quite positive considering the highly challenging macro-economic indicators during the period under survey with Pakistani Rupee showing a massive 15 % devaluation during first four months of 2022, the impact of international commodity prices rising to record level and thereby high inflation, as well as high cost of borrowing due to interest rates rising to double digit. The biggest gain came in the “services sector” (10%), followed by “Retail & Wholesale trade” (8%), and Manufacturing sector (6%). The survey sample consisted of 40% respondents from Manufacturing sector, 32% from the Services sector and 28% from the retailers / wholesalers.

The survey was conducted by an internationally known pollster for Overseas Investors Chamber of Commerce and Industry (OICCI).

Business Confidence Score



Key factors impacting the BCI Wave 21 results comprise of:

- The main driving force in the positive business confidence during wave 21 is an increase in confidence for the past six months, as industries and businesses believe that they have performed better than expected during the last six months. The significant changes that were seen during this wave were on the following measures:
 - **Global business situation in P6M: +7%**
 - **Pakistan business situation in P6M: +16%**
 - **City's business situation in P6M: +25%**
 - **Industry business situation in P6M: +32%**
 - **Company business situation in P6M: +25%**
 - **Increase in employees in P6M: +31%**
- When further investigated, in the last 6 months respondents were positive regarding government's policies, overall economic growth of Pakistan, improvement in the law-and-order and energy supply situation.
- Commenting on the business situation for the **next six months**, the survey participants were relatively less optimistic about the global and Pakistan business situation which may also have impacted their perception of city and own business situation. This not so optimistic expectation of the next six months can be related to concerns for fall out of regional events like Ukraine conflict, international high inflation impacting Pakistan economy as well and the change of government in Pakistan around the time of the survey.
- Despite challenges, the survey respondents are positive about sales growth, substantial capital investment supported by growth of profitability and return on investment in the N6M. The overall Pakistan BCI of 17% comprise of manufacturing sector which is at 23% positive (previously at 17%). Following the removal of the lockdown restrictions many of the manufacturing concerns have gone back to their full capacity of production especially in the LSM sector and were able to sell their product.
- Services sector has also recorded a substantial increase in confidence with a net positive score of 16% (previously 6%). The sector participants are expecting opportunities for growth based on improved global and in country business situation boosting demand for support services including outsourcing and freelancing.
- The retailer & wholesaler segment is at 8% BCI (0% previously in Wave 20). COVID -19 business disruption severity in this sector was the strongest. During wave 21, with the lifting of covid restrictions and Pakistan moving to normal, they have seen higher profits and sales in the past 6 months.
- The BCI of four key metro cities (Karachi, Lahore, Islamabad and Faisalabad) at 15% positive compared to positive 10% in wave 20 is in line with the overall growth in Business Confidence. The main driver of this increase are the previous 6 months. As majority of the manufacturing concerns and some large service providers are operating in these cities, they believe that past 6 months had been extremely good for them following the re-opening of the market and business activities post COVID 19 lockdown and restrictions. Further government policies and global demand of goods in the past 6 months helped in increasing the productivity. However, almost on every BCI input, respondents have shown lower confidence in the next 6 months in metro cities.

- Non-Metro cities (Peshawar, Quetta, RWP, Multan, Sialkot and Sukkur) at 26% positive BCI during wave 21 compared to 2% in wave 20. This indicates good business performance during the past 6 months and expected improved business in the next 6 months.

Respondents who are optimistic

Overall, 45% respondents had a positive outlook of Pakistan's business situation in the past 6 months due to government policies, economic growth, and improved law and order situation. The optimism in the next 6 months is due to expected increase in the size of global market and economic growth in the country. Following key aspects were identified by respondents for their positive sentiments.

Key Factors for Increase					
Past Six Months			Next Six Months		
Wave 20	Ranks	Wave 21	Wave 20	Ranks	Wave 21
Better Government Policies	1	Better Government Policies	City Governance and Policies	1	Increase in Global demand for goods
Overall Economic Growth	2	Overall Economic Growth	Improvement in Law & Order/ Security Situation	2	Expected Economic Growth
Improvement in Law & Order Situation	3	Improvement in Law & Order Situation	Improvement in Infrastructure	3	Decline in Oil Prices
Investment Climate (foreign Investment in Country)	4	Energy Situation (adequate supply of electricity etc)	Energy Situation	4	Increase in Business due to global peace situation
Energy Situation (adequate supply of electricity etc)	5	Investment Climate (foreign Investment in Country)	Encroachment Drive	5	Better Business Alliances (CPEC)

Respondents who are pessimistic

The 28% Respondents that had a negative outlook of Pakistan's business situation in the past 6 months believed it was due to higher interest rates, PKR devaluation, political instability and lower exports. Although negative outlook has decreased significantly in the next 6 months, majority of the respondents were concerned about the political instability, followed by the

Key Factors for Decline					
Past Six Months			Next Six Months		
Wave 20	Ranks	Wave 21	Wave 20	Ranks	Wave 21
Ineffective Commercial and Trade Policies	1	Higher interest rates	Lack of City Infrastructure	1	Political Instability
Energy Crises & Electricity High Cost	2	Pak Rupee Devaluation	Due to Covid-19/ Lockdowns	2	Falling Value of PKR
Political Instability	3	Political Instability	Security, Law & Order Situation	3	Energy Crises/ Increase in Fuel Prices
Lower Exports	4	Lower Exports	Lack of Effective Public Transports	4	Lack of Effective Commercial and Trading Policies
Worse Law & Order Situation	5	Higher imports	Inflation/ High Products rates	5	Problems of Law-and-Order Situation

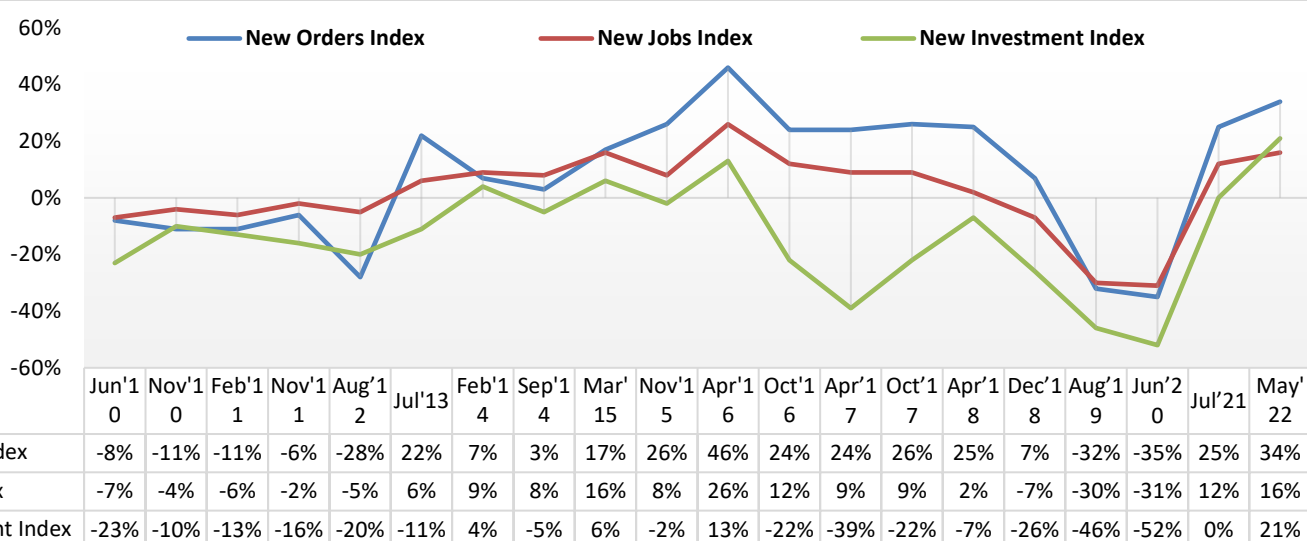
rapid decline in the value of PKR. Following key aspects were identified by respondents for their negative sentiments.

BCI OF OICCI MEMBERS: The BCI of a limited number of OICCI members, randomly selected as part of the survey, remained stagnant and stands at 33% (previously at 34%). The foreign investors appear to be concerned regarding the rapid devaluation of the currency, increased inflation, increased fuel prices and the overall impact this has on the cost of doing business.

Future Business Outlook

New Orders, Investment and Jobs Indices

Overall, an overwhelming majority of the survey participants have shown positive sentiments for growing their business and investment with expected growth in employment, as per details given below.



Expansion (New Orders): Overall confidence index in respect of expansion plans of businesses in next six months has improved to 34 % vs 25% in W20. Both manufacturing and retail sector marked an increase of 11%, from wave 20, with plans for expansions in their business, while service sector recorded an increase of 8%.

New investment: The overall positive sentiment towards capital expenditure has increased to 21% vs nil in the last survey. This positive feedback during Wave 21 comprises of 49% respondents indicating new investments as compared to 39% in Wave 20 offset by reduced negative investment feedback of 28% vs 39% in the previous survey. Overall, all three sectors (i.e. manufacturing, services and retailers) have shown positive sentiments in this regard. However, almost 80% of these respondents are not willing to invest more than 10 million each in the coming 18 months.

New Jobs: Overall, 16% net positive respondents in Wave 21 have reported growth in Total Employees going forward compared to 12 % in the previous Wave 20. The increase in employee headcount has been identified as one of the key drivers for the positive upwards trend in BCI for the past six months.

As per the respondents, government authorities need to form new institutions/ businesses/ industries (76%) and create more job opportunities (64%) in order to absorb the growing number of unemployed youths. Other suggestions included, encouraging self-employment (59%), improving the education system (52%) and ensuring good governance (35%).

Confidence on Economy in Relation to Business in Next 12 Months

About half of the respondents are confident about the economy and overall business situation of Pakistan for the next 12 months. The number is driven through high (56%) confidence shown by both manufacturing and services sectors, as well as by trade sector (45%).

Addressing Threats to Business Growth: Overall, when asked to list top threats to business growth, the survey respondents have highlighted i) Increase in Fuel Prices (79%)', ii) 'High Energy Costs (77%)', iii) 'Bribery & Corruption (74%)' and iv) 'Exchange Rate Devaluation (73%)' as the major concerns.

CONFIDENCE IN FOREIGN DIRECT INVESTMENT IN PAKISTAN:

Foreign direct investment (FDI) has been decreasing in Pakistan. Majority of the business community believes that the high cost of doing business, political instability and inadequate basic infrastructure is among the key factors inhibiting attracting large FDI in the country.

About OICCI

The OICCI is the collective voice of major foreign investors in Pakistan. The over 200 OICCI members, from 31 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. 30 percent of OICCI member companies are listed on the Pakistan Stock Exchange and 50 members are associates of the 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 34 million persons from underprivileged communities in 2021.