

State Bank of Pakistan's Business Confidence Survey* – December 2020

[20th wave of Business Confidence Survey was conducted in December 2020; with 398 firms surveyed]

Overall Business Confidence

The overall business confidence improved further by 1 point (from 55 in October 2020 to 56) in December 2020. This is the third consecutive wave of Business Confidence to remain in the green zone (**Figure 1 & 1a**), which reveals the persistence of positive opinion of business community regarding economic and business activities in Pakistan. The improvement in current wave of BCS is largely driven by industry sector.

While services sector maintained the previous level of positivity in their sentiments during December 2020, the industry showed significant increase in positive sentiments (**Figure 2**). Business confidence index for industry increased by 5 points in December 2020 wave and reached highest level since its inception this survey in 2018.

The headline index “Overall Business Confidence” is comprised of two sub-indices; “Current Business Confidence Index (CBCI)” and “Expected Business Confidence Index (EBCI)”. The opinion of participants of BCS on account of current economic and business conditions reached highest since 2018 and entered into the positive zone after 16 waves. As far the expectations regarding economic and business conditions in the next six months are concerned, it remained same.

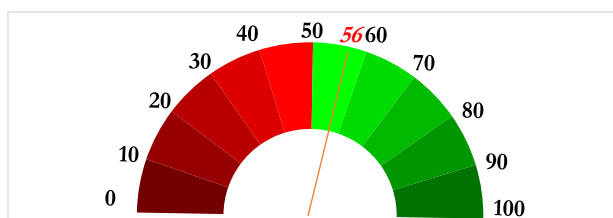
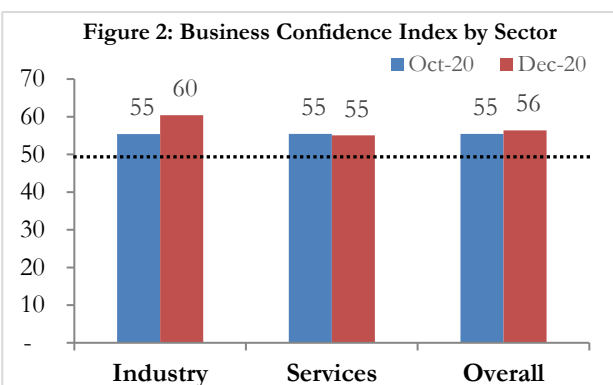
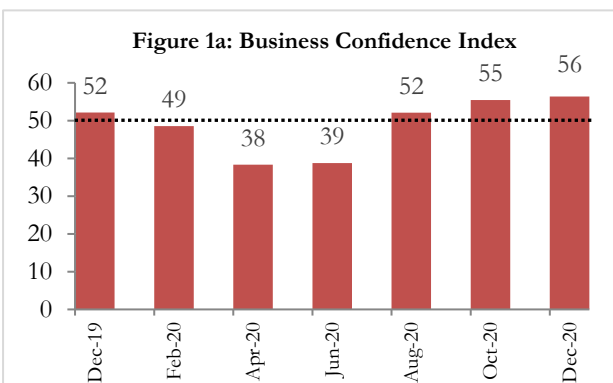


Figure 1: Overall Business Confidence Index



* SBP has been conducting the Business Confidence Survey (BCS) in collaboration with the Institute of Business Administration (IBA) since October 2017 at a bi-monthly frequency to obtain the views of senior managers of large companies in the industry and services sector. The survey provides information to SBP regarding the perceptions of company managers about current and expected business conditions and major factors affecting these conditions. It covers their views on production, hiring of employees, demand for credit and general economic conditions. April 2020 wave of BCS was conducted online due to COVID-19 led lockdown in the country instead of all other waves that were conducted through telephone. SBP disseminates the results of BCS for general information only. These are opinions of businesses and may not be considered either as SBP views or as an endorsement by SBP.

Current Business Confidence

The Current Business Confidence Index (CBCI) improved by 2 points in October 2020 to 51 in December 2020 wave (**Figure 3**). This change in CBCI was largely driven by industry sector, which increased significantly by 7 points from 50 in October 2020 to 57 in December 2020. However, the services sector improved slightly within negative zone from 48 in October 2020 to 49 in the current wave of BCS.

Looking at the disaggregated distribution of responses (**Table 1**), there is a movement from negative and very negative views to positive views, while the share of neutral views has declined in the current wave.

The overall percentage share of positive and very positive views has increased significantly from 31 in October 2020 to 38 in December 2020. On the other hand, the percentage share of negative and very negative views has decreased from 31 to 27 during this period.

The main driving factor for this improvement in the CBCI is increase in the positive views of survey respondents regarding general economic conditions in the country, their production/sales, and hiring of employees over the last six months.

Expected Business Confidence

The Expected Business Confidence Index (EBCI) remained same at 62 in December 2020 (**Figure 4**). However, change in future expectations from both sectors remained contrary to each other: industry sector is expecting improvement in future economic and business conditions, while services sector expecting these condition to deteriorate within positive zone (compared to previous wave's expectations). The EBCI for the industry sector increased from 60 to 64 while for services sector, it decreased from 63 in October 2020 to 61 in December 2020.

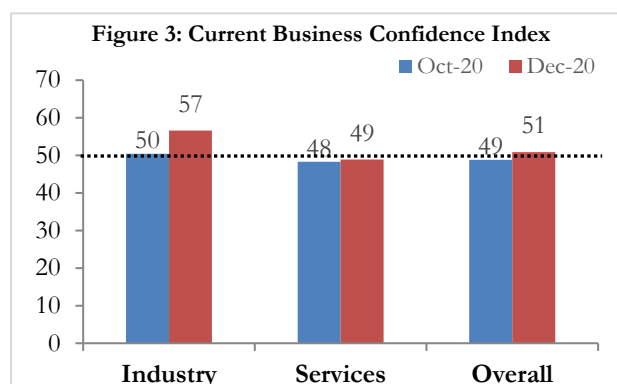
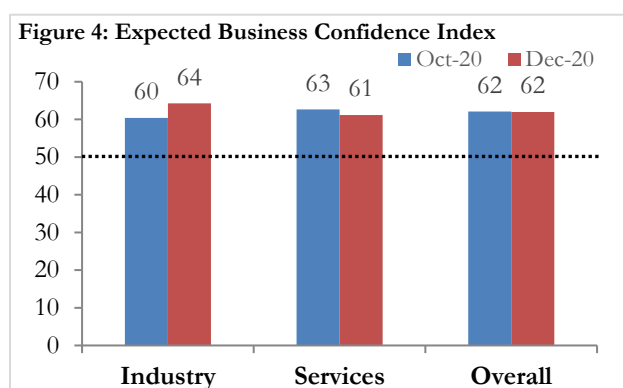


Table 1: Current Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Dec-20					
Industry	9.1	33.9	35.9	16.6	4.5
Services	4.0	29.0	33.3	25.9	7.7
Overall	6.6	31.4	34.6	21.3	6.1
Oct-20					
Industry	6.6	23.7	43.0	18.0	8.6
Services	6.5	24.5	33.7	26.1	9.2
Overall	6.6	24.1	38.4	22.0	8.9



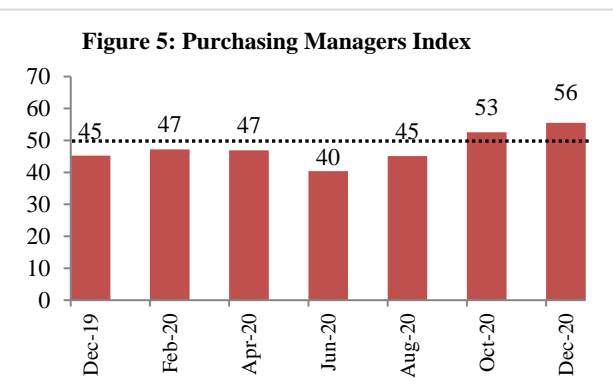
The disaggregation of EBCI results reveals a rise in positive and very positive views and slight decrease in very negative views between the last two waves (**Table 2**), while the neutral views has declined in the current wave.

The overall percentage share of positive views has increased from 50 in October 2020 to 54 in December 2020. However, the percentage share of very negative views decreased from 2 percent to 1 percent during the last two waves.

Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Dec-20					
Industry	11.4	43.2	37.7	6.5	1.2
Services	4.7	49.1	34.2	10.4	1.7
Overall	8.0	46.1	35.9	8.4	1.4
Oct-20					
Industry	7.0	40.6	42.0	7.9	2.6
Services	8.8	43.7	38.3	7.7	1.5
Overall	7.9	42.1	40.1	7.8	2.1

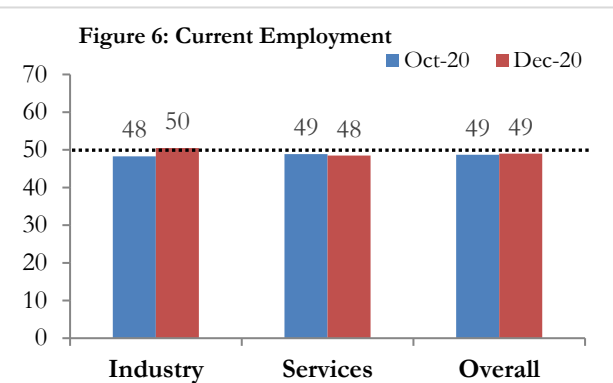
Purchasing Managers Index

In December 2020 Purchasing Managers Index (PMI) reached its highest level (since inception of BCS). PMI increased significantly from 53 in October 2020 to 56 in December 2020 (**Figure 5**). This increase in PMI is driven by increase in the firm's business activities, firm's total order books, and purchases of raw material in the recent wave.

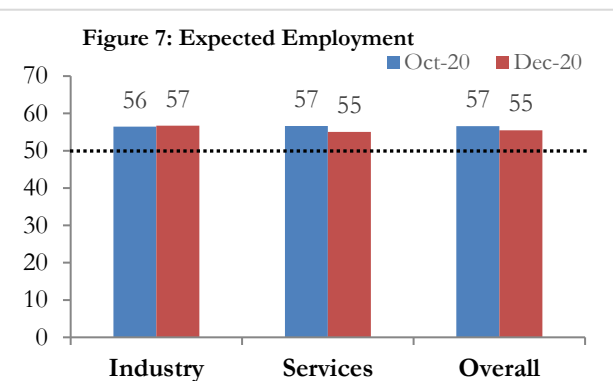


Employment

The current employment diffusion index remained same at 49 in the current wave (**Figure 6**). However, the change in current employment by both sector remained contrary; the industry sector improved from 48 in October to 50 in the current wave, while the services sector decreased slightly within negative zone from 49 in October 2020 to 48 in December 2020.



Expected employment decreased within positive zone from 57 in October 2020 to 55 in the current wave. Interestingly, for industry the expected employment index increased slightly from 56 to 57, while for the services sector it decreased from 57 in October 2020 to 55 in the current wave (**Figure 7**).



Business Confidence Survey (BCS) Notes

1. Computation of the Diffusion Index

The results of Business Confidence Survey (BCS) are reported in the form of Diffusion Index (DI). The Diffusion Index shows the general tendency of respondents about a certain aspect of a particular survey. The questionnaire for this survey offers following five types of options to the respondents for their views on each question.

Sr. No.	Answer Options	Assigned score
1	PP = Very positive	1
2	P = Positive	0.5
3	E = Unchanged/neutral	0
4	N = Negative	-0.5
5	NN = Very negative	-1

On the basis of these five options, the Diffusion Index is computed in the following two steps:

Step 1: Net Response (NR) is computed as below:

$$NR = \{(1.00 * PP) + (0.50 * p) + (-0.50 * N) + (-1.00 * NN)\}$$

Step 2: The diffusion index is computed as follows:

$$DI = (NR + 100)/2$$

2. How to interpret the index?

The diffusion index ranges from the minimum value of 0 to the maximum value of 100 i.e. a value of 50 is indicative of neutrality, 0 no confidence and 100 indicates extreme confidence. So in general:

- DI > 50 indicates that Positive views are more than Negative views;
- DI = 50 indicates that Positive views and Negative views are equal;
- DI < 50 indicates that Positive views are less than the Negative views

We report diffusion index for each question; the composite indices such as Current Business Confidence Index (CBCI), Expected Business Confidence Index (EBCI), Business Confidence Index (BCI) and Purchasing Managers Index (PMI) are averages of selected questions. In addition, overall economy wide indices are computed by taking weighted average of industry and services sector indices. The weight assigned to each sector is based on its share in the Non-Agricultural GDP.

3. Questions used for different Indices

Index	Question description
Current Business Confidence Index	- The general <i>economic conditions</i> in the country over the past six months have
	- Excluding normal seasonal changes, your <i>production</i> over the past six months has
	- Excluding normal seasonal changes, the <i>total number of employees</i> at your firm over the past six months has
Expected Business Confidence Index	- You expect the general <i>economic conditions</i> in the country in the next six months to
	- Excluding normal seasonal changes, you expect your <i>production</i> in the next six months to
	- Excluding normal seasonal changes, you expect the <i>total number of employees</i> at your firm in the next six months to
Business Confidence Index	- The general <i>economic conditions</i> in the country over the past six months have
	- You expect the general <i>economic conditions</i> in the country in the next six months to
	- Excluding normal seasonal changes, your <i>production</i> over the past six months has
	- Excluding normal seasonal changes, you expect your <i>production</i> in the next six months to
	- Excluding normal seasonal changes, the <i>total number of employees</i> at your firm over the past six months has
	- Excluding normal seasonal changes, you expect the <i>total number of employees</i> at your firm in the next six months to
Purchasing Manager Index (for industry only)	- Excluding normal seasonal changes, your <i>production</i> over the past six months has
	- Excluding normal seasonal changes, the <i>total number of employees</i> at your firm over the past six months has
	- Excluding normal seasonal changes, your <i>total order books</i> over the past six months have
	- In the past six months , the <i>quantity of raw material purchases</i> has
	- Average <i>supplier delivery times</i> over the past six months has