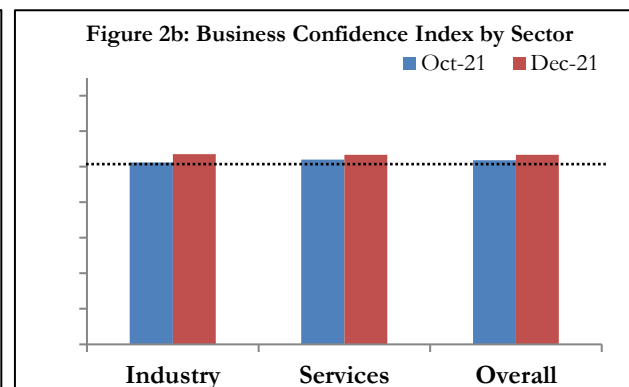
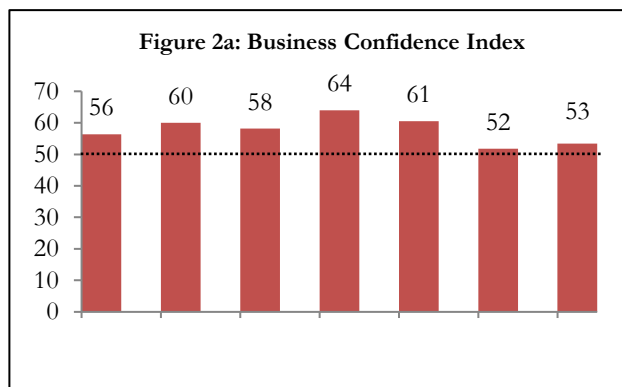
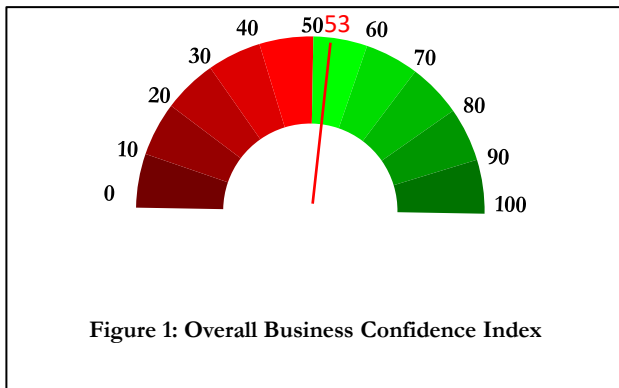


## State Bank of Pakistan's Business Confidence Survey\* – December 2021

[26<sup>th</sup> wave of Business Confidence Survey (BCS) conducted in December 2021; with 421 firms surveyed]

### Overall Business Confidence

Business Confidence Index (BCI) continued to be in the green zone since August 2020. BCI increased by 1 point to 53 in December 2021 from 52 in October 2021 (**Figure 1 & 2a**). The increase in BCI derived from both sectors: industry and services. (**Figure 2b**).



Respondents' views of BCS on account of current economic & business conditions remained unchanged in December 2021; however, the index for expected economic and business conditions witnessed an improvement.

\* 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. 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

Current Business Confidence Index (CBCI) remained same at 49 in December 2021 (**Figure 3**). CBCI for industry improved by 1 point in the latest wave but this gain was offset by one point decrease in services sector. The industry sector CBCI increased from 50 in October 2021 to 51 in the current wave while the services sector confidence decreased from 49 in October 2021 to 48 in the latest wave.

The disaggregation of responses (**Table 1**) shows a slight movement from both extremes views (very positive and very negative) to moderates of both (positive and negative) views and a slight increase in the share of neutral views in the current wave.

The overall percentage share of positive and very positive views has decreased by 1 point to 31 in December 2021 from 32 in October 2021. Similarly, the percentage share of negative and very negative views has also decreased by 1 point to 31 in December 2021 from 32 in the last wave.

The major contribution for this decrease in CBCI is the decline in the positive views of survey respondents about general economic conditions in the country in the last six months.

## Expected Business Confidence

The Expected Business Confidence Index (EBCI) remained within positive zone for last nine waves; and increased significantly in December 2021. EBCI increased by 3 points from 55 in October 2021 to 58 in December 2021 (**Figure 4**). This improvement was attributed by both the sectors: industry and services.

The disaggregation of EBCI shows a reduction in negative views and an increase in positive views during current wave (**Table 2**), while the neutral views decreased in the current wave.

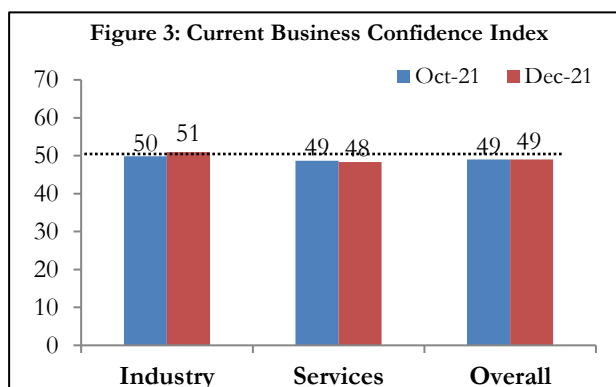


Table 1: Current Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Dec-21</b>					
Industry	6.6	27.6	35.8	22.8	7.1
Services	6.5	22.1	38.7	23.9	8.9
Overall	6.6	24.8	37.2	23.3	8.0
<b>Oct-21</b>					
Industry	8.3	25.3	35.0	20.2	11.1
Services	7.8	22.2	37.6	21.8	10.6
Overall	8.1	23.8	36.3	21.0	10.9

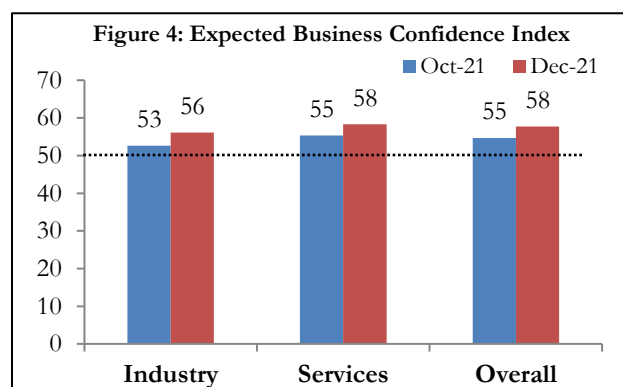
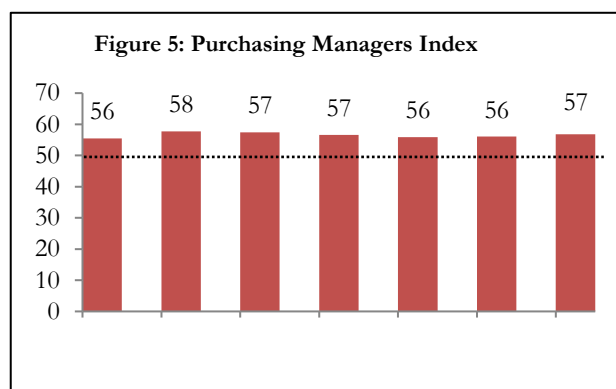


Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Dec-21</b>					
Industry	8.2	31.3	40.4	16.7	3.3
Services	9.7	35.3	37.4	13.3	4.2
Overall	9.0	33.3	38.9	15.0	3.7
<b>Oct-21</b>					
Industry	8.8	25.4	41.2	16.8	7.9
Services	9.6	27.0	43.6	14.8	5.0
Overall	9.2	26.2	42.4	15.8	6.4

The overall percentage share of positive views (positive plus very positive) has increased by 7 point to 42 in December 2021 and the percentage share of negative and very negative views has decreased by 3 points to 19 in the current wave.

### Purchasing Managers Index

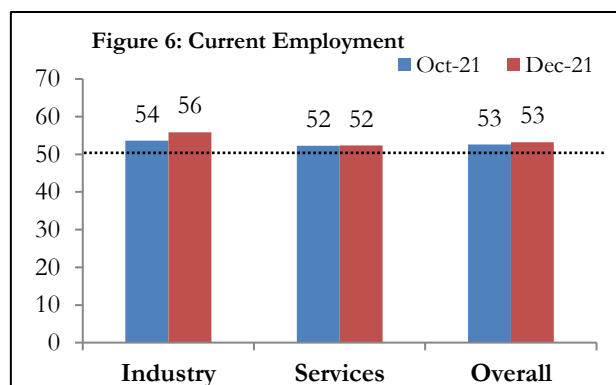
A slight increase observed in Purchasing Managers Index (PMI) in the latest wave. PMI increased from 56 in October 2021 to 57 December (**Figure 5**). PMI's disaggregation shows an increase in firms' production, total number of employees, and quantity of raw material purchases, while supplier delivery times and total orders booked decreased in the same period.



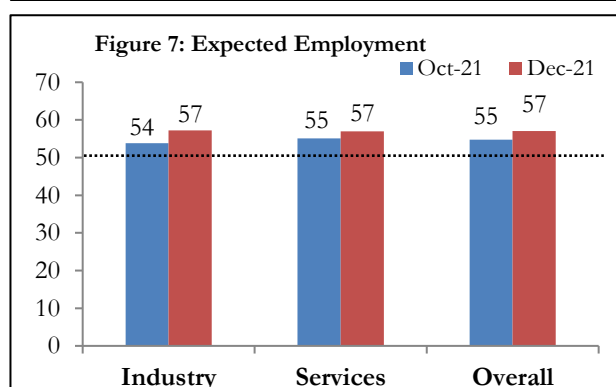
### Employment

The current employment diffusion index remained same at 53 in December 2021 (**Figure 6**).

However, industry sector employment improved while services sector employment remained same. The index for industry sector increased from 54 in October 2021 to 56 in the current wave while that for services sector employment remained same at 52 in the latest wave.

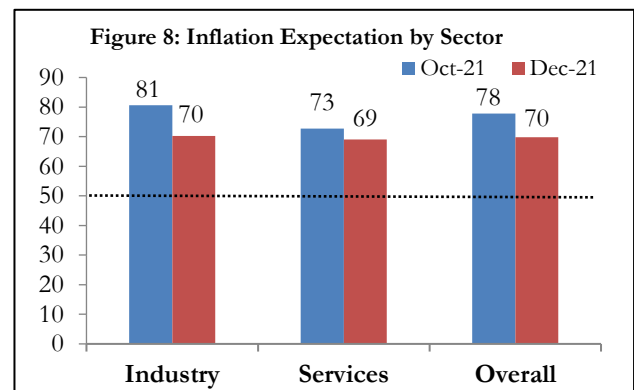


Expected employment diffusion index increased by 2 point to 57 in December 2021. This increase was shared by both sectors (industry and services). Expected employment index for industry sector increased from 54 to 57 in the current wave. Similarly, expected employment diffusion index in services sector increased by 2 points to 57 in December 2021(**Figure 7**).



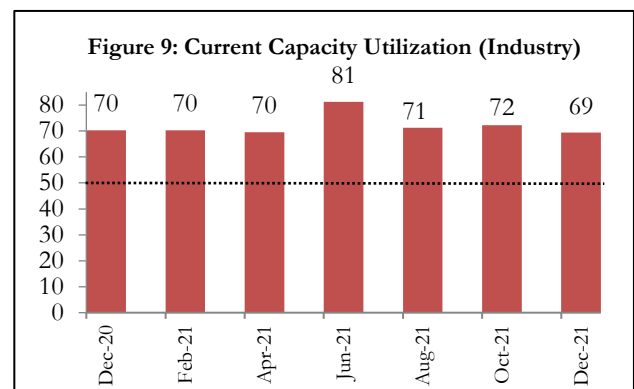
## Inflation

Overall inflation expectations index decreased significantly by 8 points to 70 in December 2021. This decrease in inflation expectation contributed by both sectors (industry and services). Inflation expectation index of industry sector decreased by 11 points to 70 in December 2021 wave, whereas service sector's inflation index decrease by four points to 69 in December 2021 (**Figure 8**).



## Capacity Utilization

Average Current Capacity Utilization (ACCU) measures percentage of total capacity being utilized by industry sector. A slight decrease was observed in ACCU during the latest wave of BCS. ACCU decreased by 3 percent to 69 in December 2021 from 72 percent in October 2021.



## **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.

<b>Sr. No.</b>	<b>Answer Options</b>	<b>Assigned score</b>
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

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