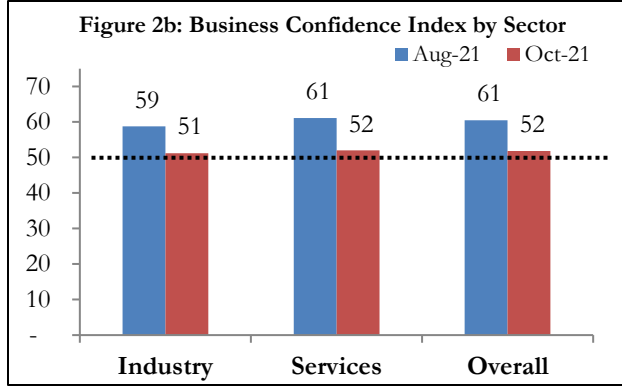
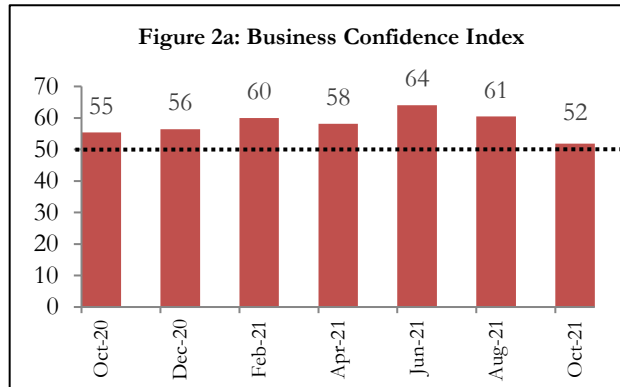
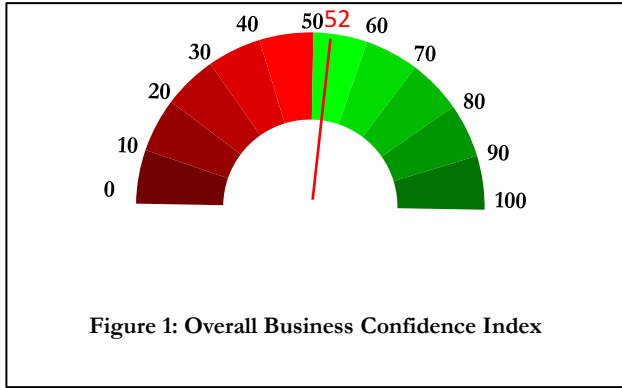


State Bank of Pakistan's Business Confidence Survey* – October 2021

[25th wave of Business Confidence Survey (BCS) conducted in October 2021; with 468 firms surveyed]

Overall Business Confidence

Business Confidence Index (BCI), although still in green zone, has decreased in the latest wave conducted in October 2021. BCI fell by 9 points from 61 in August 2021 to 52 in October 2021 (**Figure 1 & 2a**). The decrease in BCI was derived by both the industry and services sectors (**Figure 2b**).



Respondents' views of BCS on account of current economic & business conditions landed into red zone after being in green zone during the last five waves. As far as the expectations regarding economic and business conditions in the next six months are concerned, a significant decrease was observed in the latest BCS wave.

* 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

After remaining positive in the last five waves, Current Business Confidence Index (CBCI) decreased to negative zone in October 2021. CBCI decreased significantly by ten points to 49 in October 2021 from 59 in the previous wave (**Figure 3**). This change in CBCI contributed by both industry and the services sectors. The industry sector CBCI decreased by eight points from 58 in August 2021 to 50 in the current wave while the services sector confidence decreased by 11 point from 60 in August 2021 to 49 in the latest wave.

The disaggregation of responses (**Table 1**) shows significant movement from positive views to negative views and the share of neutral views almost remained same in the current wave.

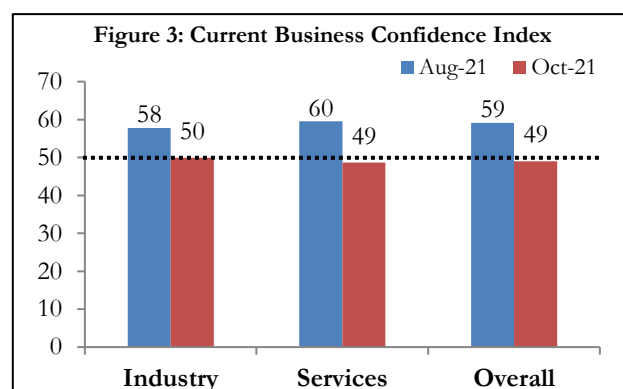
The overall percentage share of positive and very positive views has decreased by 15 points to 32 in October 2021 from 47 in August 2021. In contrast, the percentage share of negative and very negative views has increased by 15 points to 32 in October 2021 from 17 in the last wave.

The major elements for this decrease in CBCI are; decrease in the positive views of survey respondents about general economic conditions in the country and their production/sales over the last six months.

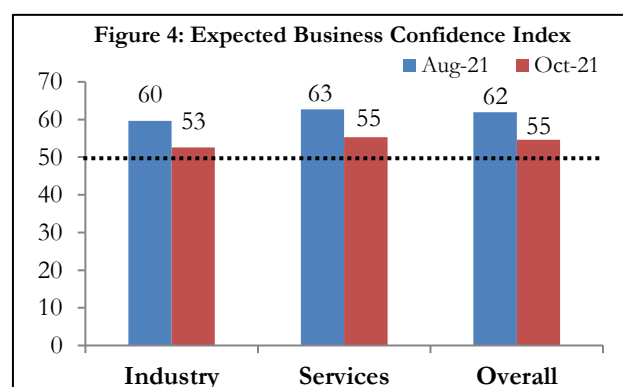
Expected Business Confidence

The Expected Business Confidence Index (EBCI) also decreased in October 2021 and fell to the lowest level since June 2020. EBCI decreased by 7 points from 62 in August 2021 to 55 in October 2021, however remained within positive zone for last eight waves (**Figure 4**).

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



	Very Positive	Positive	Neutral	Negative	Very Negative
Oct-21					
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
Aug-21					
Industry	8.8	36.2	37.2	13.1	4.8
Services	7.3	41.5	34.5	15.3	1.3
Overall	8.1	38.8	35.8	14.2	3.1

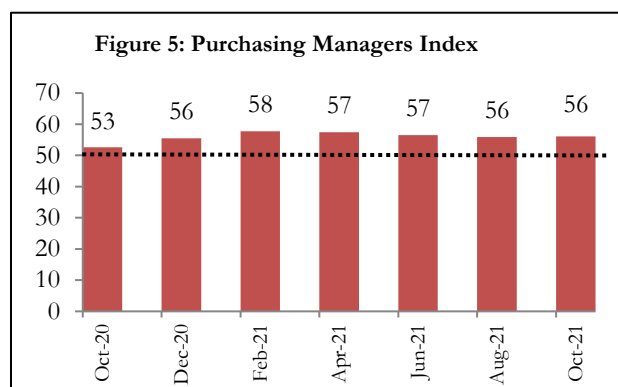


	Very Positive	Positive	Neutral	Negative	Very Negative
Oct-21					
Industry	8.8	25.4	41.2	16.8	7.9
Services	9.6	27.0	43.6	14.8	5.0
Overall	9.2	26.2	42.4	15.8	6.4
Aug-21					
Industry	5.8	44.7	35.0	11.5	3.0
Services	5.8	48.8	36.3	8.5	0.6
Overall	5.8	46.8	35.6	10.0	1.8

The overall percentage share of positive views (positive plus very positive) has decreased by 17 point to 35 in October 2021 and the percentage of negative views has increased by 10 points to 22 percent in current wave.

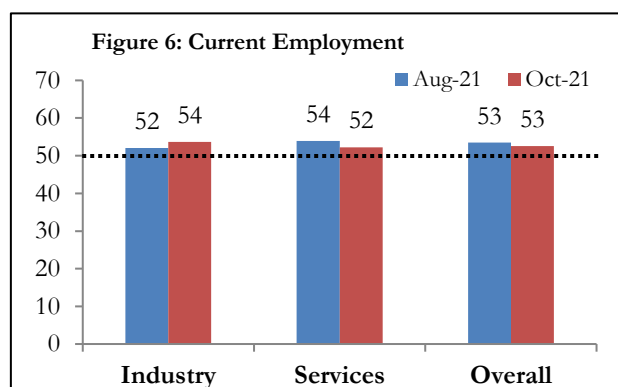
Purchasing Managers Index

A relative stability observed in Purchasing Managers Index (PMI) in the last four waves. PMI remained same at the level of August 2021 wave, i.e. 56 in October 2021 (**Figure 5**). PMI's disaggregation shows an increase in total number of employees and quantity of raw material purchases; offset by the decline in production, supplier delivery times and total orders booked in October 2021.

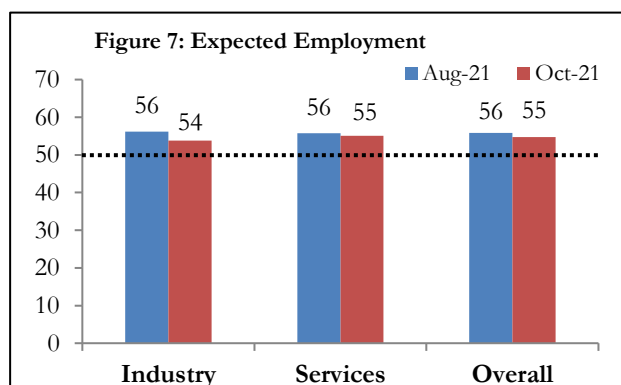


Employment

The current employment diffusion index slightly decreased by 1 point to 52 in October 2021 (from 53 in the previous wave) (**Figure 6**). Interestingly, industry sector employment improved while services sector employment decreased. The industry sector increased from 52 in August 2021 to 54 in the current wave while the services sector employment decreased from 54 in August 2021 to 52 in October 2021.

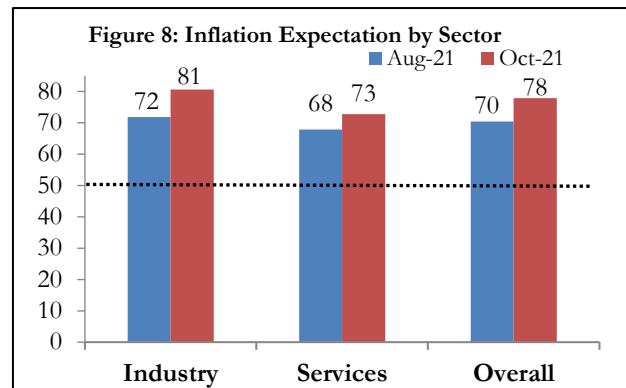


Expected employment diffusion index also decreased by 1 point to 55 in October 2021. This decrease was shared by both sectors (industry and services). Expected employment index for industry sector decreased from 56 to 54 in the current wave. Similarly, expected employment diffusion index in services sector also decreased by 1 point to 55 in October 2021 (**Figure 7**).



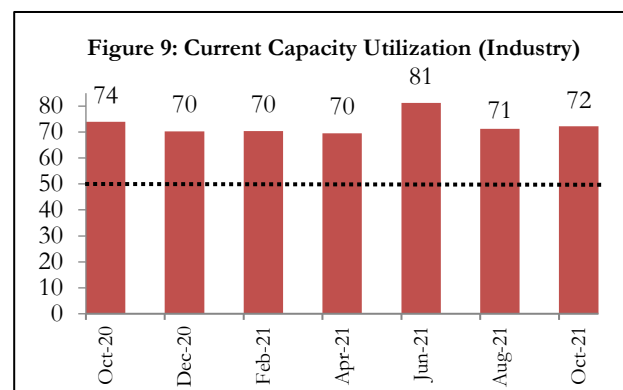
Inflation

Overall inflation expectations index increased further by 8 points to 78 in August 2021; highest level since August 2019. This increase in inflation expectation contributed by both sectors (industry and services). Inflation expectation index of industry sector increased by 9 points to 81 in October 2021 wave, whereas service sector's inflation index increase by five points to 73 in October 2021 (**Figure 8**).



Capacity Utilization

Average Current Capacity Utilization (ACCU) measures percentage of total capacity being utilized by industry sector. A slight improvement observed during the latest wave of BCS. ACCU increased by one percent to 72 in October 2021 from 71 percent in August 2021 on account of rise in stock of finished goods and purchases of raw material.



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

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
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