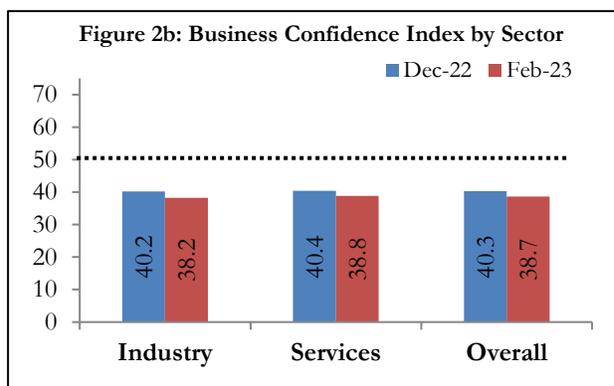
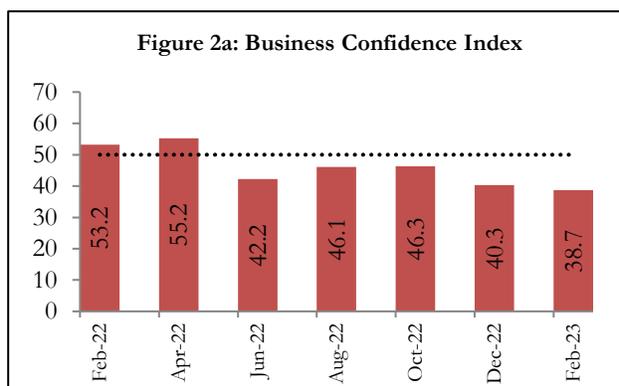
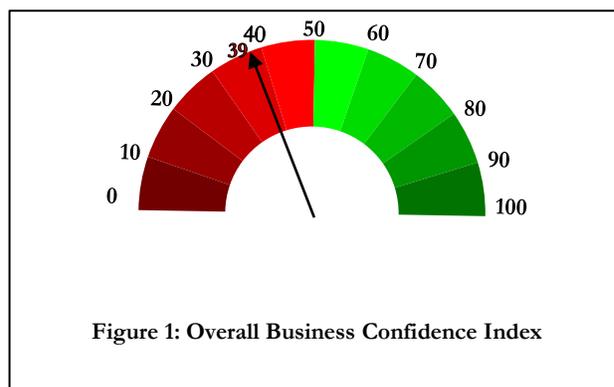


State Bank of Pakistan’s Business Confidence Survey* – February 2023

[33rd wave of Business Confidence Survey (BCS) conducted during February 1-10, 2023; with 505 firms surveyed]

Overall Business Confidence

Business Confidence Index (BCI) declined further in February 2023 (**Figure 1 & 2a**) by 1.6 points to 38.7 from 40.3 in the previous wave. This is the lowest level since April 2020 when it recorded at 38.4. The decrease in BCI contributed by both the Industry and Services sector. Industry sector confidence decreased by 2.0 points to 38.2, while Services sector confidence decreased by 1.5 points to 38.8 in February 2023 (**Figure 2b**).



BCS respondents’ confidence on account of both current and expected business conditions declined further in February 2023.

* 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. From February 2023, the frequency of the survey is being increased to monthly. 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 views of or as an endorsement by SBP.

Current Business Confidence

Current Business Confidence Index (CBCI) decreased by 1.0 point to 35.0 in February 2023 over the last wave (**Figure 3**). This is the lowest level since June 2020 when it was recorded at 30.1. This decrease was derived by CBCI of Services sector and Industry sector. Services sector CBCI decreased by 1.0 point to 35.0 in the current wave from 36.0 in December 2022; while Industry sector CBCI declined by 1.0 point to 34.9 in February 2023.

The disaggregation of responses (**Table 1**) shows decline in the neutral views and increase in negative as well as positive views during the current wave.

The overall percentage share of positive views (both positive and very positive) increased by 1.8 points to 14.3 percent in the current wave, while negative views (negative and very negative) increased by 4.4 points to 59.9 in the current wave from 55.5 in the last wave. However, neutral views declined substantially by 6.2 points to 25.8 in February 2023.

Expected Business Confidence

The Expected Business Confidence Index (EBCI) decreased within the red zone in February 2023. EBCI decreased by 2.3 points to 42.4 in the current wave over the previous wave; (**Figure 4**). This is the lowest level since April 2020 when it recorded at 38.2. The fall was attributed to decrease of 3.0 points in Industry sector and 2.1 points decrease in the Services sector.

The disaggregation of EBCI shows decrease in positive as well as neutral views, while the negative views (negative and very negative) increased in the current wave (**Table 2**). The overall percentage share of positive views (positive and very positive) decreased by 2.7 points to 19.4 in February 2023 whereas the share of

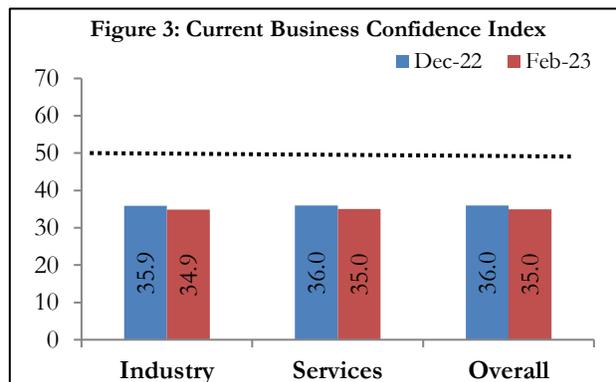


Table 1: Current Business Confidence (% Share)

	Very Positive	Positive	Neutral	Negative	Very Negative
Feb-23					
Industry	4.1	10.2	28.2	36.1	21.4
Services	2.8	11.5	23.4	47.4	14.9
Overall	3.4	10.8	25.8	41.8	18.1
	14.3		25.8	59.9	
Dec-22					
Industry	3.6	9.4	31.4	37.9	17.6
Services	2.3	9.7	32.5	40.7	14.8
Overall	3.0	9.5	32.0	39.3	16.2
	12.5		32.0	55.5	

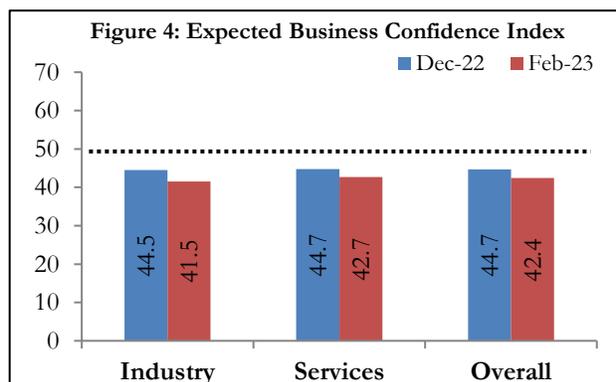


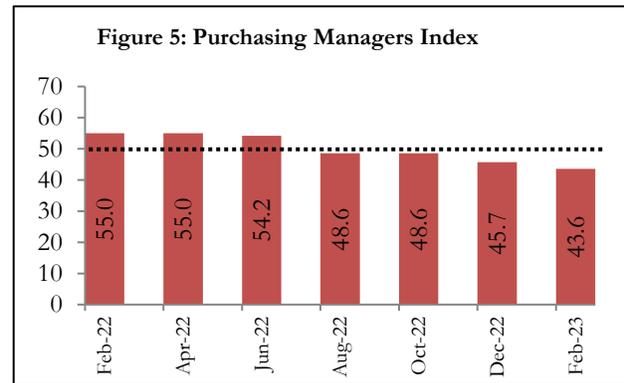
Table 2: Expected Business Confidence (% Share)

	Very Positive	Positive	Neutral	Negative	Very Negative
Feb-23					
Industry	2.1	16.6	38.0	31.7	11.5
Services	3.4	16.7	34.4	38.4	7.1
Overall	2.8	16.7	36.2	35.1	9.3
	19.4		36.2	44.4	
Dec-22					
Industry	4.7	18.5	38.0	27.8	11.0
Services	2.6	18.4	42.5	28.3	8.2
Overall	3.6	18.5	40.2	28.0	9.6
	22.1		40.2	37.6	

neutral views decreased by 4.0 points to 36.2 in the current wave, while negative views increased by 6.8 points to 44.4 in the current wave.

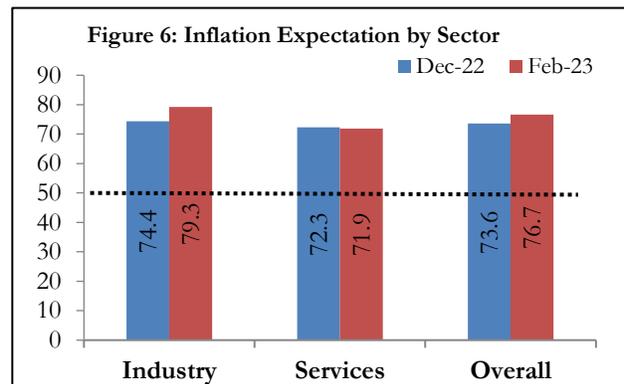
Purchasing Managers Index

Purchasing Managers Index (PMI) decreased further within the red zone in February 2023 wave. It fell by 2.1 points to 43.6 in February 2023 on top of 2.9 points decline in December 2022 (**Figure 5**). PMI's disaggregation shows decrease in the indices of its all five components in the latest wave. Those contributing factors are (a) index for firms' business activities, (b) total number of employees, (c) total orders booked, (d) quantity of raw material purchases, and (e) the average supplier delivery times.



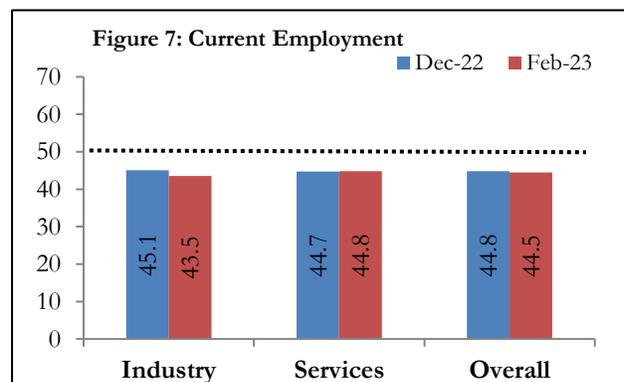
Inflation Expectations

Overall index of Inflation Expectations (IE) increased by 3.1 points to 76.7 in February 2023 from 73.6 in December 2022. This raise in inflation expectations is mainly contributed by the Industry sector. Inflation Expectation Index of Industry sector increased by 4.9 points to 79.3 in February 2023 wave, whereas Services sector's IE index slightly decreased by 0.4 points to 71.9 in February 2023 (**Figure 6**) from 72.3 in the wave of December 2022.

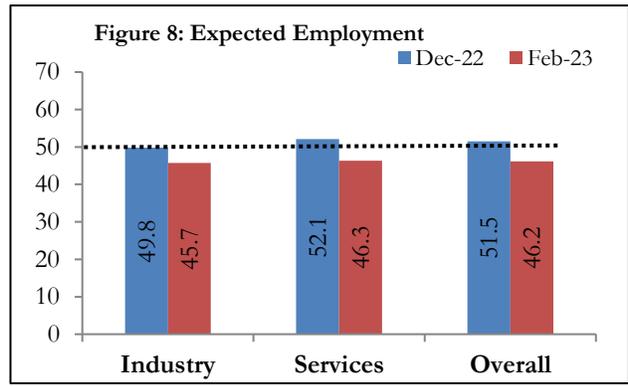


Employment

The overall Current Employment Diffusion Index decreased by 0.3 points to 44.5 in the current wave (**Figure 7**). This change was derived by Industry sector. The employment index for Industry sector fell by 1.6 points to 43.5 in February 2023 from 45.1 in the previous wave. However, Services sector current employment index slightly improved by 0.1 point from 44.7 in December 2022 to 44.8 in the current wave.

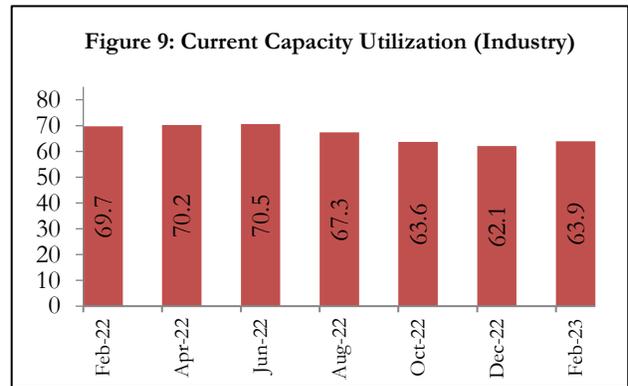


Expected Employment Diffusion Index declined by 5.4 points to 46.2 in February 2023 which is the lowest since April 2020 when it was 44.1. This change was contributed by both the Industry and the Services sector. Industry sector Expected Employment Index decreased by 4.1 points to 45.7 in the current wave, while Services sector index declined by 5.8 points to 46.3 in February 2023 (**Figure 8**).



Capacity Utilization

Average Current Capacity Utilization (ACCU)¹ contrarily improved in the recent wave by 1.8 percent to 63.9 from 62.1 percent in December 2022. However, it is worth mentioning here that the ACCU is computed for only manufacturing sector within Industry.



¹ ACCU measures percentage of total capacity being utilized by Industry sector.

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 sector 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