ACCI Business Tendency Survey Report

June 2016

With the cooperation of GIZ

ACCI Business Tendency Survey Report[1]

Major findings

- Companies partially resume their optimism regarding the outlook of their businesses.
- Regional differences are high with Balkh on negative and Nangarhar on positive ends.
- Companies keep reporting very poor condition for their order books. An overview of Kabul order books indicators reveals that since 2012 the order books situation is continually deteriorated.
- Security, market demand and the need for administrative reforms are three major desired improvements for business developments.
- In all four surveyed sectors, companies employ fewer people compared to the previous survey.

A. Business Climate

The Business Climate is an indicator for GDP growth tendencies. The indicator usually is leading; it indicates GDP changes in advance (on average a few months if no unexpected change in frame conditions occurs).

The Business Climate indicator is constructed from the judgments of managers on their present business situation and their business expectations for the next six months by a standardized and internationally used formula (for methodology see at the end of the report).

The indicator values range from 0 (meaning "normal") up to a possible maximum of plus 100 for a positive climate and from 0 to a possible minimum of minus 100 for a negative climate.

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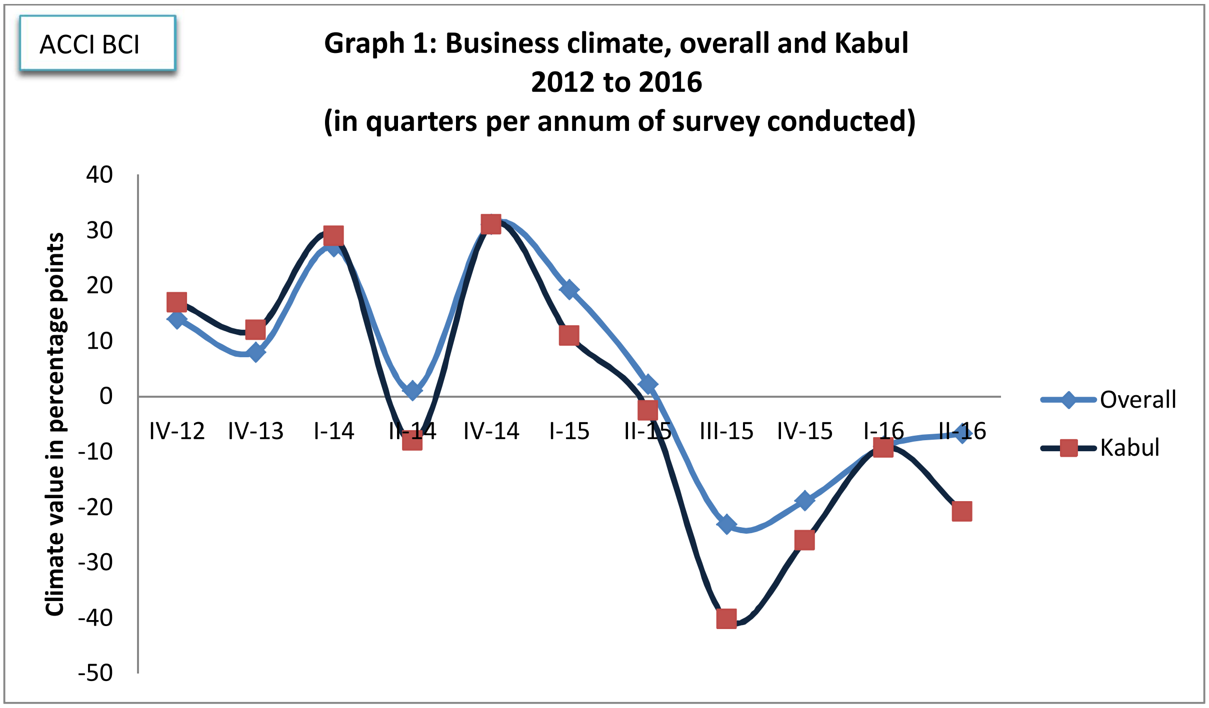
[1] The Business Tendency Survey asks the managing directors of businesses for their opinions on the current business situation and their expectations for the next six months. The current survey was conducted in five regions (Kabul, Balkh, Kandahar, Herat and Nangarhar) and 560 companies were interviewed through phone during first and second week of June 2016.

A.1- Business Climate overall and by Region

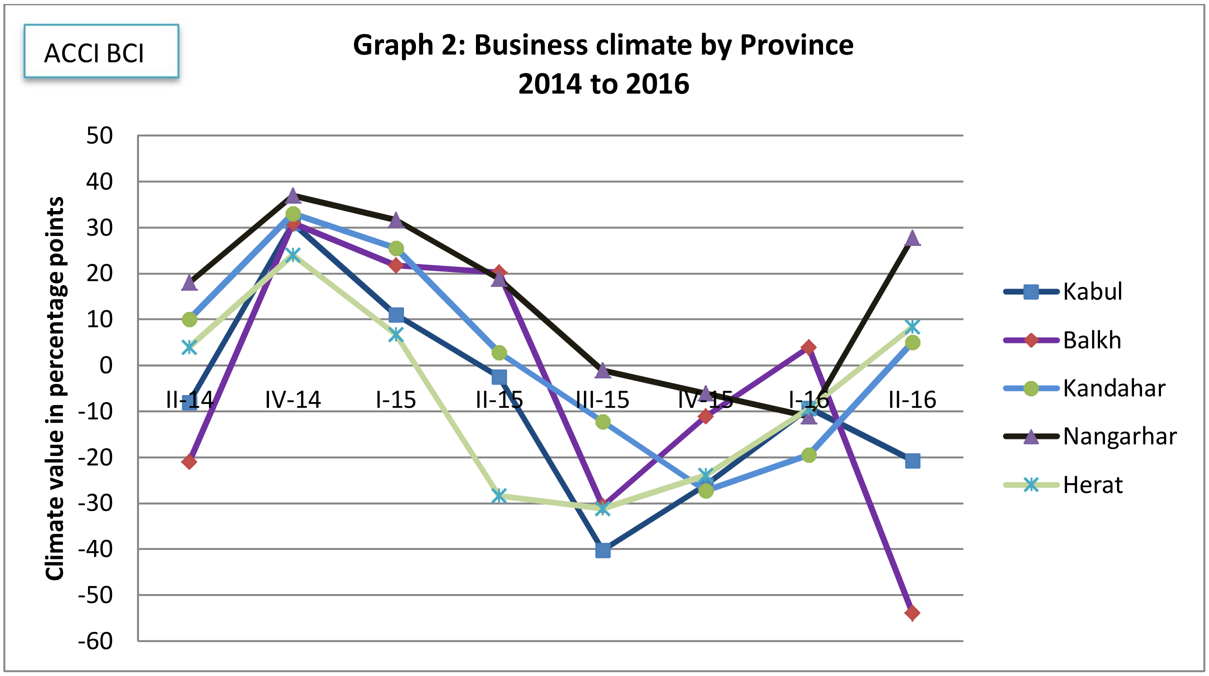
The overall Business Climate indicator in June 2016 for Kabul, Balkh, Kandahar, Nangarhar & Herat regions altogether valued -6.70 points while in last survey it was -9.07 points.

Companies are optimist regarding the outlook of their businesses and the surveyed companies expect a better condition for coming months (22.5), but the current situation of their businesses is reported as very poor (-41.43).



Balkh shows the least favorable condition compared to the previous surveys. They see their current situation and expectation worse than other provinces. Balkh is followed by Kabul. As illustrated in graph 2, Nangarhar, Herat and Kandahar look more optimistic compared to last survey.[2] The comparison over time shows a highly volatile and inconsistent business climate.

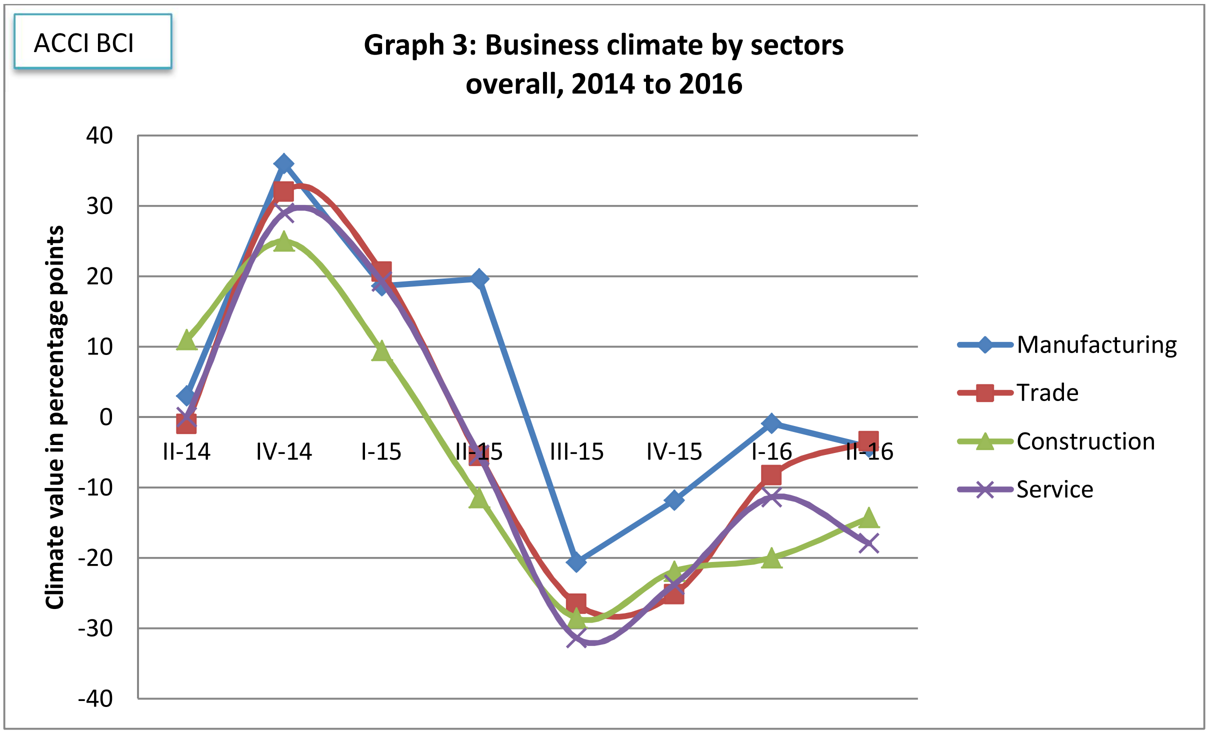
2 The number of Provinces were increased over time to five, which should represent the country's situation:
IV-2012 Kabul, Balkh
IV-2013: Kabul, Balkh, Kandahar
I-2014: Kabul, Balkh, Kandahar, Nangarhar
Since II-2014: Kabul, Balkh, Kandahar, Nangarhar and Herat.



A.2- Business Climate by Sectors

This survey shows improvements in Construction and Trade sectors compared to previous survey. Service companies have reported the worst condition and traders top in sectorial ranking; and the business climate indicator for all sectors is negative.

As illustrated in graph 3, Manufacturing and Construction sectors also suffer from an unfavorable business condition. The balances of positive minus negative responses on their current business performance ranged between -30.3 and -48.96 across the sectors, but in general the respondents are resuming their hopes for future.



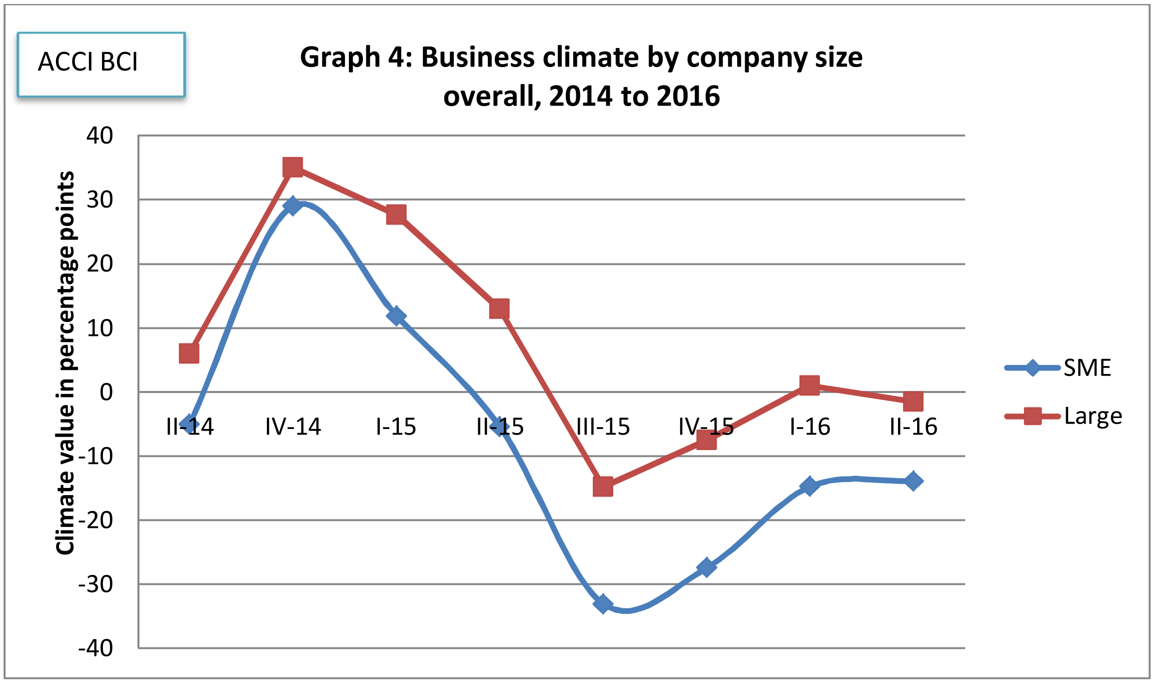
Despite improvements in the surveyed companies' expectations, the comparison of four latest surveys shows that the real business condition keeps worsening.

A.3- Business Climate by Company Size

The Business Climate survey shows little improvements only for SMEs.

The Business Climate Indicator value for SMEs was (-14.74) about three months back when the first ACCI 2016 Business Tendency Survey was conducted, but now this indicator has slightly improved to (-13.88)

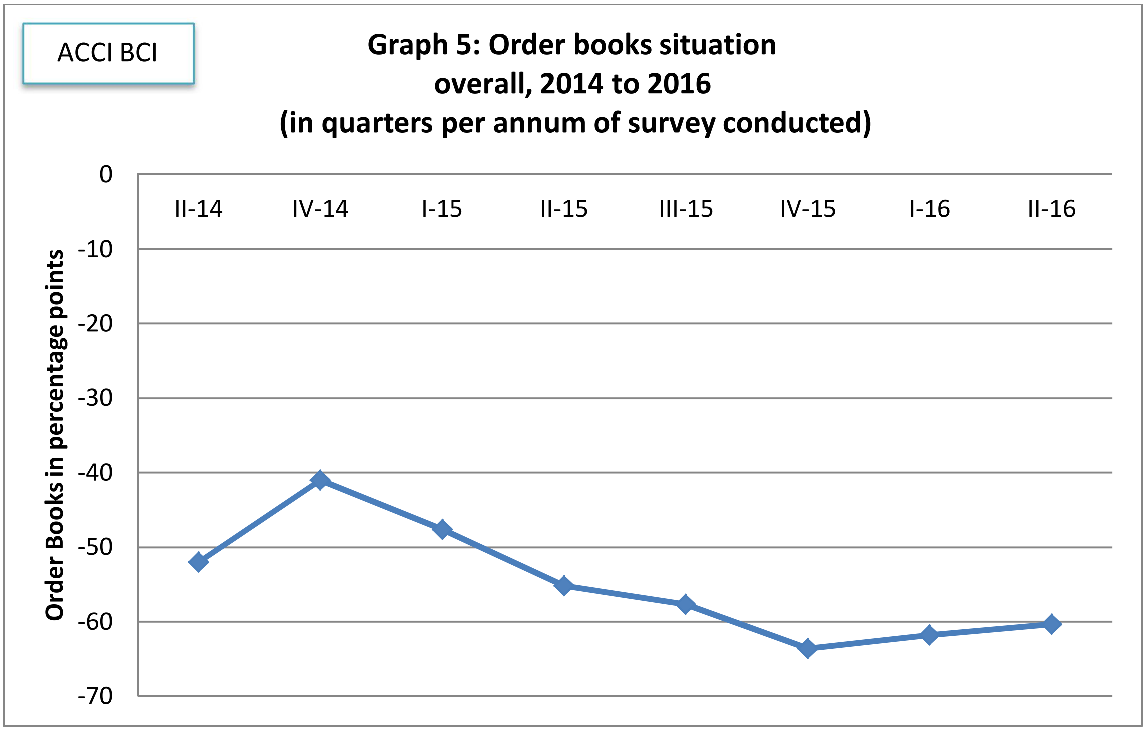
The Business Climate Indicator value for large companies is (-1.5). In last survey it was (1).

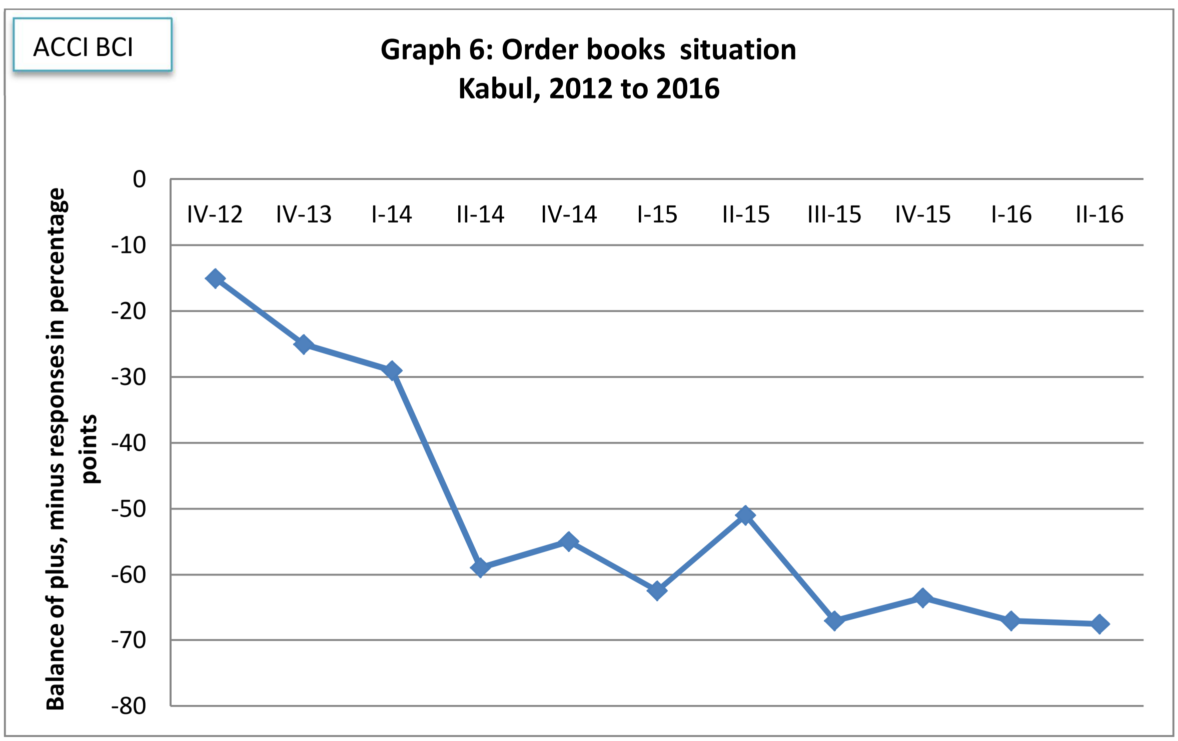


B. Order Books

The order books situation is another indicator for the business situation. It is complementary to the Business Climate and can be used as a control for the climate tendency. The result figures are based on percentage balance values (positive minus negative answers).

The order books are in a very poor condition, however very little improvement is seen in this survey (-60.36) compared to last survey (-61.79).



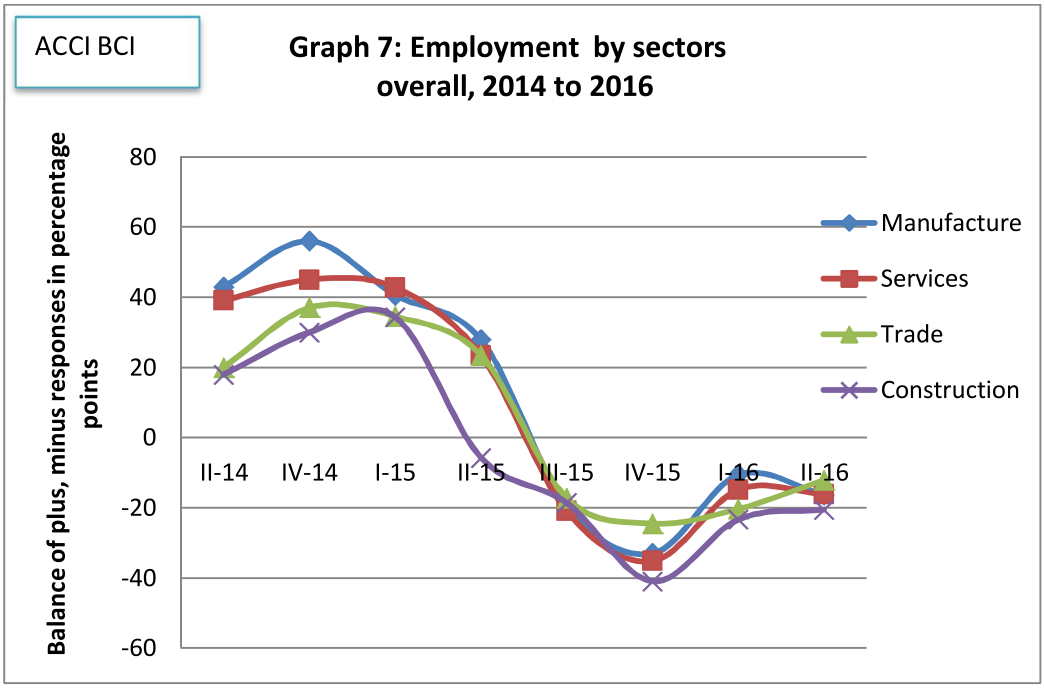


An overview of the Kabul order books indicators over time reveals that since 2012 the order books situation has continually declined. This time also it has slightly declined from -67 to -67.5.

C. Employment Expectation

The survey reveals that surveyed companies' managers and owners are not enough optimistic regarding their employments in coming three months.

The balance of future employment plans is (4.64) points across the sectors which is considerably lower than that of the previous survey (13.4)

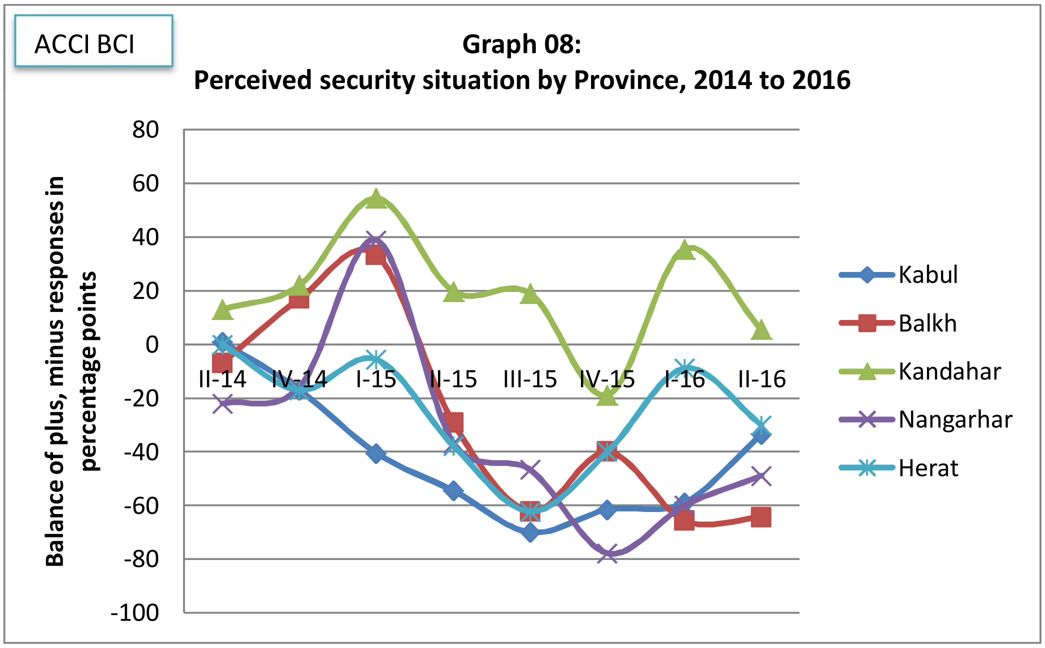


It is worth mentioning that the real employment situation was different to what the businesses expected in previous survey. In March 2016 the surveyed companies expected about 13.4 points increase in their employments for the then coming three months, while this survey showed a more negative tendency in employment during last three months. The number of respondents who say they have decreased their employees is -36.6 more than those who say they have employed more people during last three months.

Construction (-20.47) and Manufacturing (-16.36) employees have lost considerably more jobs compared to Service (-16.21) and Trade (-12.07). As usual businesses across the sectors expect a positive employment indictor for coming three months but the trend has slightly declined this time.

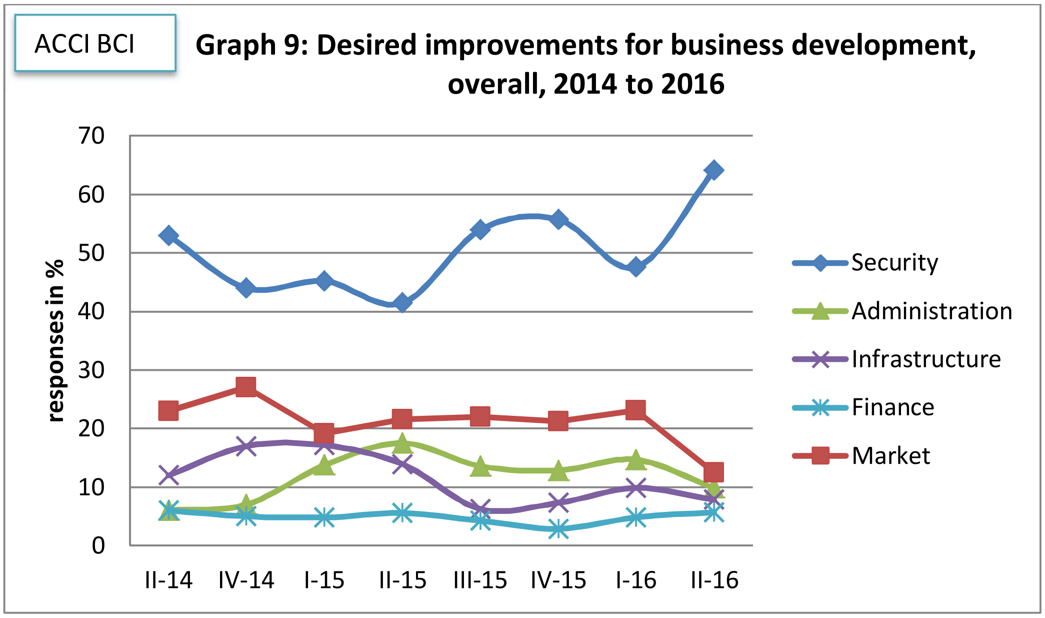
D. Security Situation

The security condition has reportedly improved in Kandahar, Nangarhar and Kabul. Kandahar is the only region that has recorded a positive security indicator in this survey, while Balkh has reported highly worsened security condition in last three months.



E. Desired Improvements for Business Development

The evaluation of major business constraints shows that the most important factor for business development is security; it is followed by market and demand, administrative reforms, better infrastructure and access to finance. As illustrated in Graph 9. The call for administrative reforms has gradually increased and in last four surveys it is ranked as more urgent than infrastructural developments.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Graph 9: Desired improvements for business development, overall, 2014 to 2016
70
60
50
40
30
20
10
0
responses in %
II-14
IV-14
I-15
II-15
III-15
IV-15
I-16
II-16
Security
Administration
Infrastructure
Finance
Market

Appendix:

The Definition of the Business Climate Indicator

The Business Climate is based on a periodic survey of company managers in Manufacturing, Construction, Services and Trade sectors. The managers are requested to report on their present business situation as well as on their expectations for the next six months. They may judge their situation to be “better than normal”, “normal” or “worse than normal”. On their expectations they may answer that the situation will “improve”, “remain the same” or “deteriorate”.

The balance value of the present situation is the difference of the percentage shares of the answers “better than normal” and “worse than normal”. The balance value for the expectations is the difference of the percentage shares of the answers “improve” and “deteriorate”.

The Business Climate is the arithmetic mean of the situation (balance value) and the expectations (balance value).

In graphical presentations for the first survey rounds the “normal” and “remain the same” judgments are taken as the zero line. The range of the climate indicator may vary between 0 and in its maximum up to one hundred towards the positive (plus) and as well one hundred towards the negative (minus) side. At a later stage, after time series can be established, the “zero” line will be based on a normal year climate (taken as 100 and the following quarterly climate values indexed to this year).

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