ACCI Business Tendency Survey Report

June 2015

With the cooperation of GIZ

ACCI Business Tendency Survey Report[1]

Major findings

- The business condition has extremely deteriorated during last three months.
- Balkh and Nangarhar enjoys comparatively better business condition compared to Herat, Kabul and Kandahar.
- Manufacturing remains confident while construction, trade and services have extremely suffered during last three months.
- Majority of the surveyed companies say they hire fewer people than three months ago.
- Security condition has deteriorated across the regions.
- Increasingly more people ask for administrative reforms.

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.

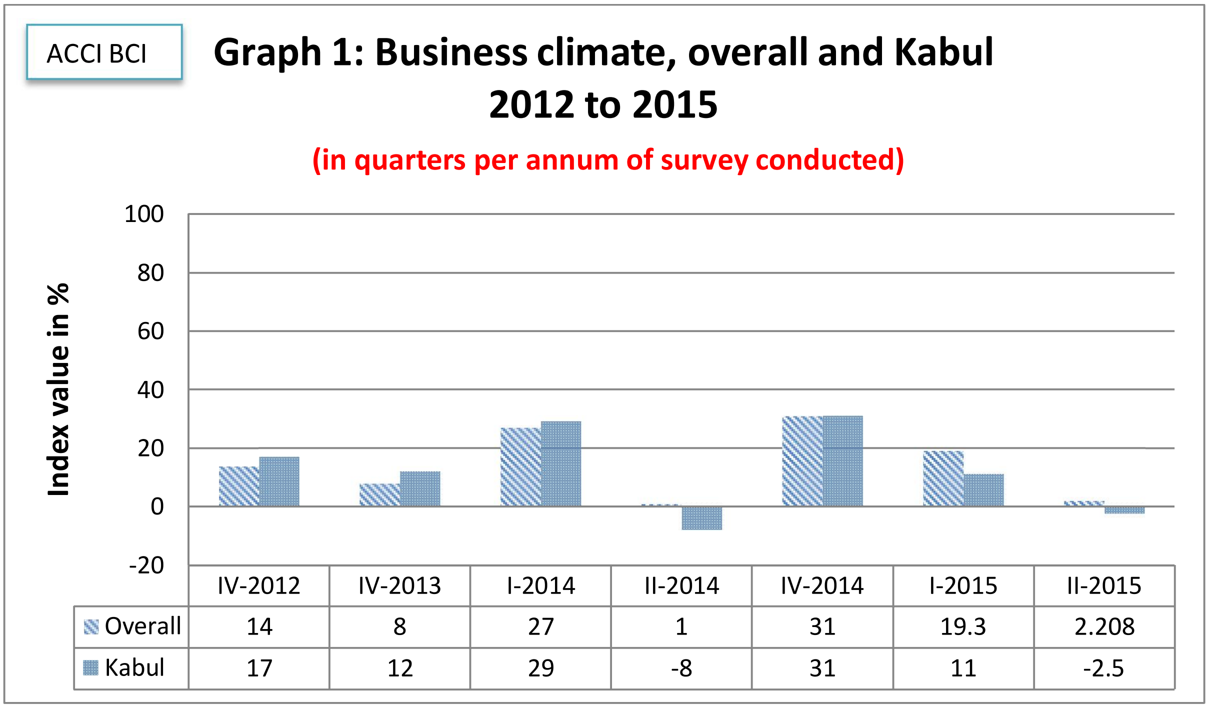
A.1- Business Climate overall and by Region

The overall business climate indicator in June 2015 for Kabul, Balkh, Kandahar, Nangarhar & Herat regions altogether valued (2.20) points while last year it was (1) points for the same season, when the businesses experienced the worst condition due to the political confusions caused on the presidential elections results. Meanwhile the comparison of the last three surveys shows that the enthusiasm

[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 second and third weeks of June 2015.

created after the establishment of the National Unity Government is fading (31→19→2.2).

Although, the surveyed businesses expect a better condition for coming months, the current situation of their businesses is reported to be very poor (-42).



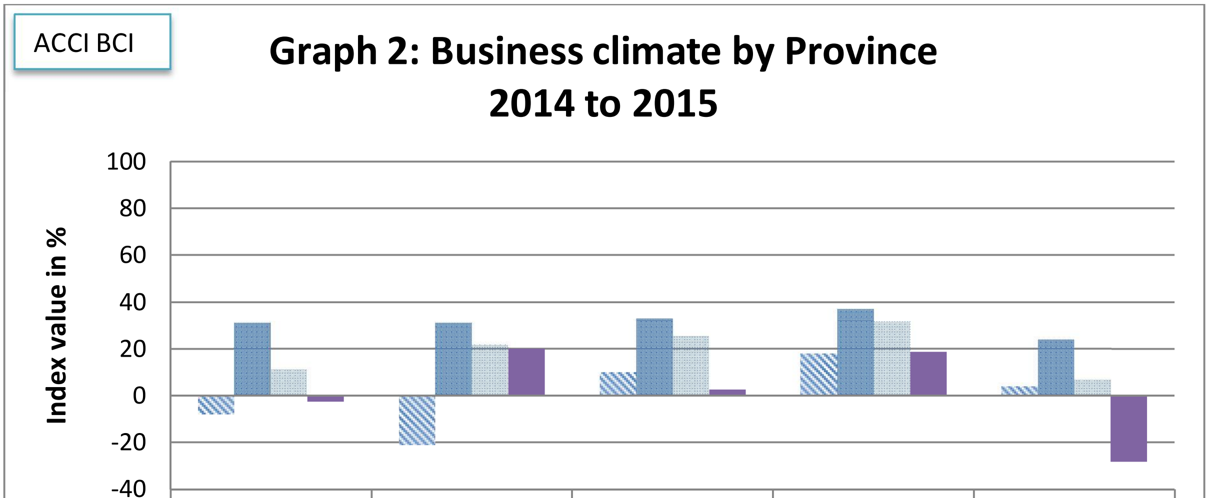
Graph 1: Business climate, overall and Kabul 2012 to 2015

(in quarters per annum of survey conducted)

Herat shows the least favorable condition, followed by Kabul and Kandahar while Balkh and Nangarhar are comparatively more confident regarding the six coming months. As illustrated in graph 2, none of the regions show any improvement in their business climates if compared to last season.[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.

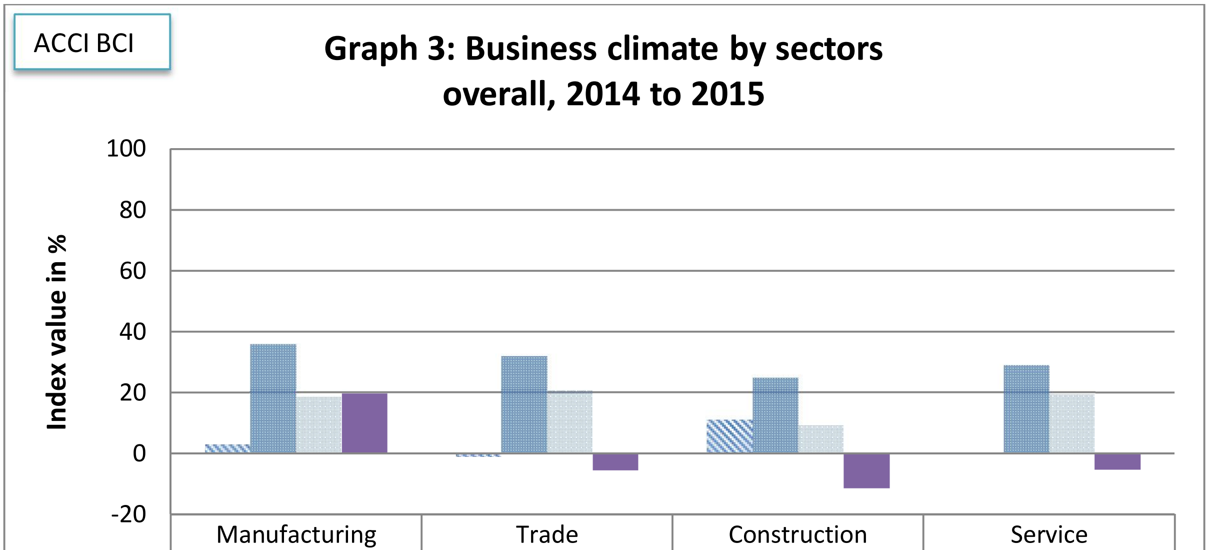


	Kabul	Balkh	Kandahar	Nangarhar	Herat
II-2014	-8	-21	10	18	4
IV-2014	31	31	33	37	24
I-2015	11	21.7	25.55	31.7	6.7
II-2015	-2.5	20.225	2.75	18.89	-28.325

A.2- Business Climate by Sectors

This survey shows a sharp decline in all sectors, except manufacturing. Construction companies have reported the worst condition and manufacturers top in sectorial ranking.

As illustrated in graph 3, trade and service sectors also suffer from a worsened business condition, compared to the last survey. Respondents remain hopeful about the coming six months, while the balances of positive minus negative responses on their current business performance ranged between -27.3 and -56 across the sectors.



	Manufacturing	Trade	Construction	Service
II-2014	3	-1	11	0
IV-2014	36	32	25	29
I-2015	18.7	20.7	9.5	19.3
II-2015	19.695	-5.515	-11.425	-5.4

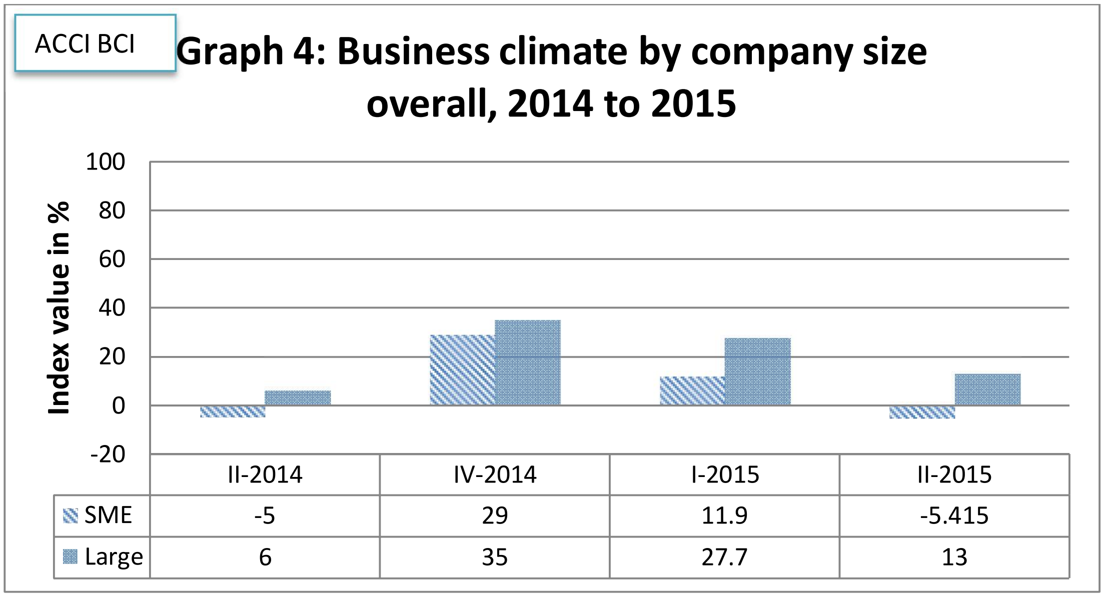
The comparison of three latest surveys shows that the real business condition has largely worsened after the last presidential elections while expectations remain positive and the business community struggle to see the materialization of promises made during elections and after the establishment of the National Unity Government. It is worth mentioning that expectations have also considerably declined in this survey.

A.3- Business Climate by Company Size

Like last survey the business climate for both SMEs and Large enterprises has deteriorated but SMEs report comparatively more problems.

The Business Climate Indicator value for SMEs was (11.9) some three months back when the first ACCI 2015 Business Tendency Survey was conducted, but now this indicator has declined to (-5.4), which reflects the concerns of business community regarding the lack of practical steps for the improvement of business environment despite gushy promises.

The Business Climate for larger companies also shows a notable decline from 27.5 points to 13 points. Despite the worsening current condition majority of businesses remain hopeful expecting that the business climates will improve in coming months.

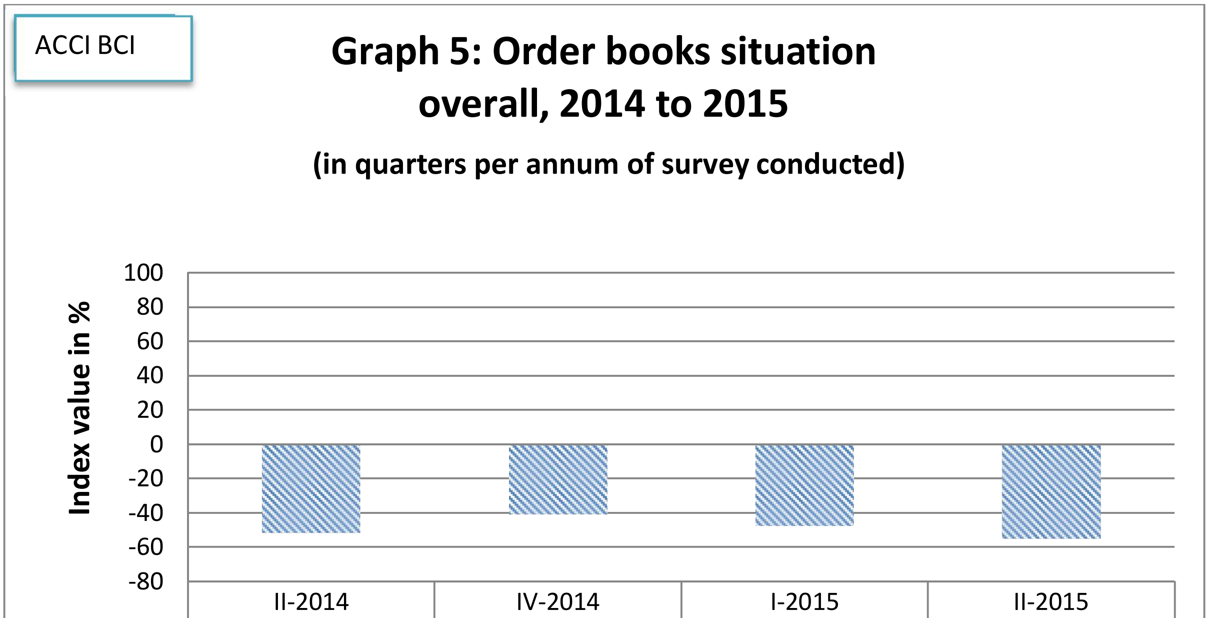


B. Order Books

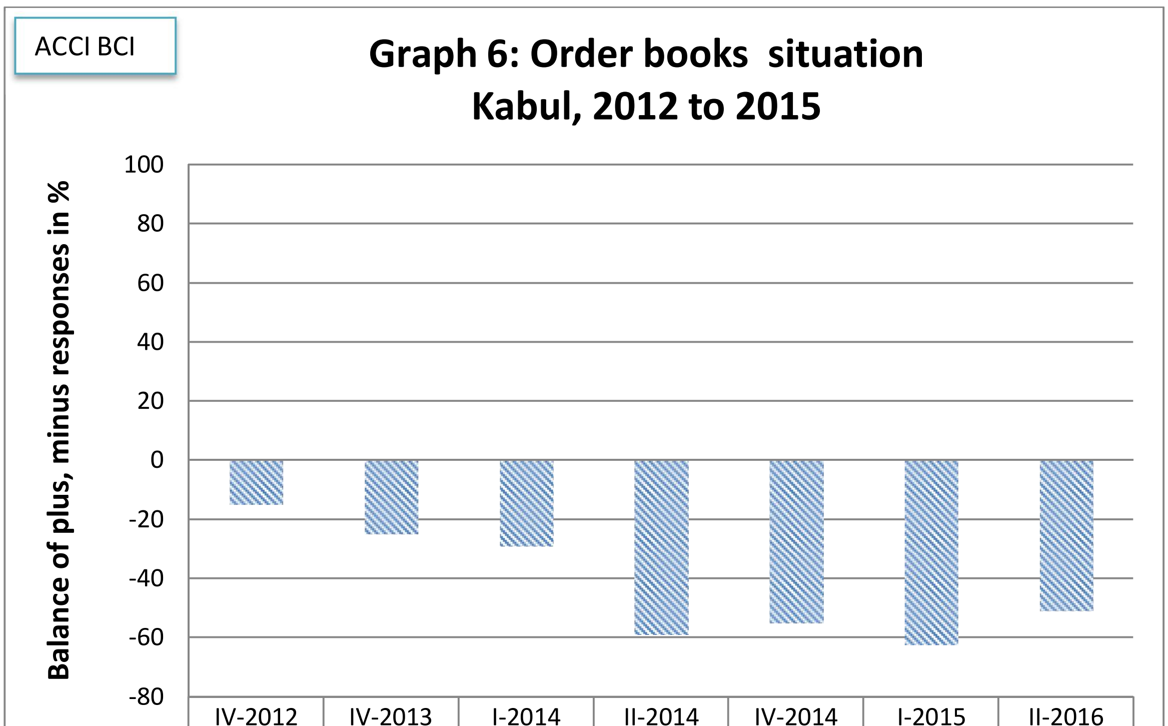
The order books situation is another indicator for the business situation. It is complementary to the Business Climate and can be used as a control for the climate tendency. However, the result figures are based on percentage balance values (positive minus negative answers).

The order books are in a very poor condition and the majority of the respondents say that they experienced a serious decrease (-55.2) in their order books during last three months.

An analysis of the results of the previous surveys revealed that the expectations of our respondents were too optimistic and that the business owners and/or managers reply based on what they wish for coming months rather than telling what they really look forward to considering the existing factors. Therefor this time we laid off the expectation question for the order books.



	II-2014	IV-2014	I-2015	II-2015
situation	-52	-41	-47.61	-55.19



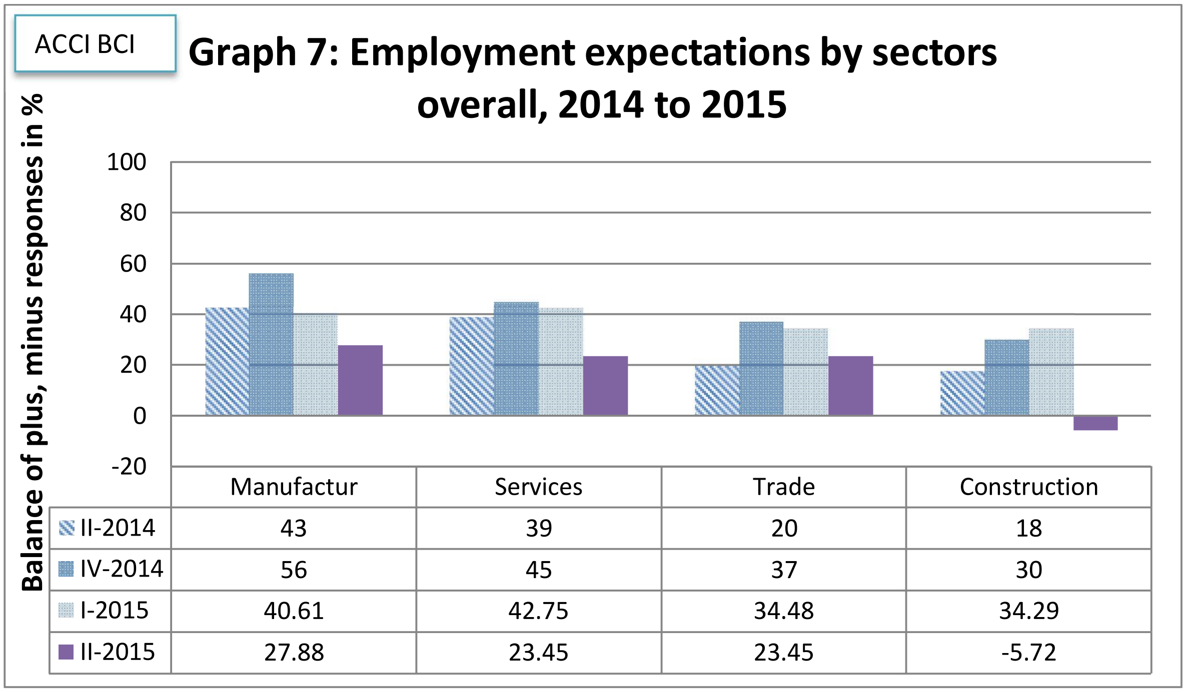
	IV-2012	IV-2013	I-2014	II-2014	IV-2014	I-2015	II-2016
situation	-15	-25	-29	-59	-55	-62.5	-51

An overview of the Kabul order books indicators over time reveals that since 2012 the order books situation has continually declined, though this time the Kabul companies recorded slightly less negative answers compared to last survey.

C. Employment Expectation

In general, the managers and owners of surveyed companies are optimistic regarding their employments in coming three months.

The balance of the employment plans is 19.3 points across the sectors which are considerably lower than the previous survey (38.39).



	Manufactur	Services	Trade	Construction
II-2014	43	39	20	18
IV-2014	56	45	37	30
I-2015	40.61	42.75	34.48	34.29
II-2015	27.88	23.45	23.45	-5.72

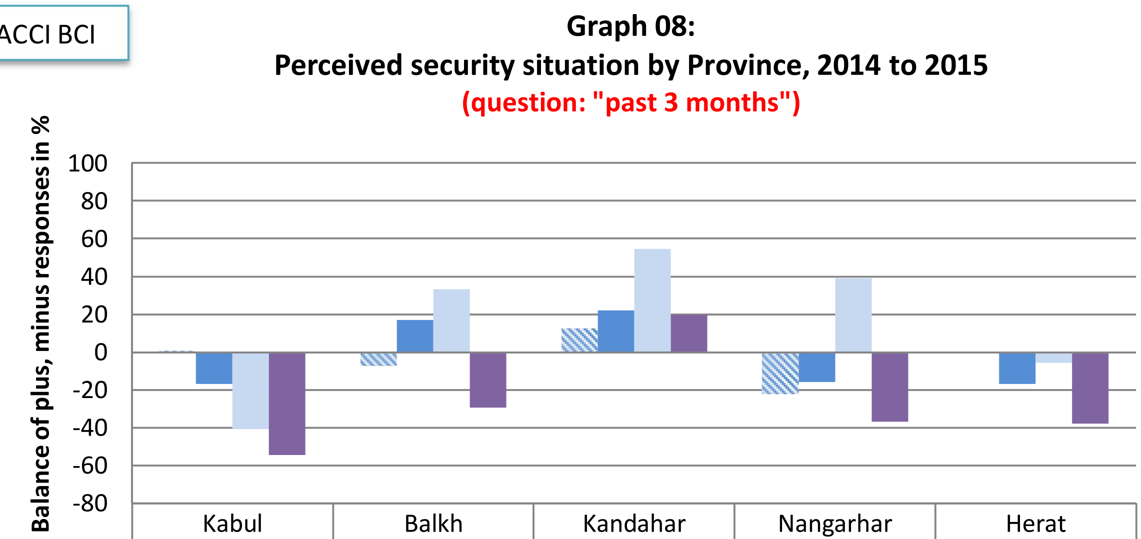
It is worth mentioning that the real situation of the employment was extremely different to what the businesses expected in previous survey. In March the surveyed companies expected an increase of about 38.4 points in their employments for then the coming three months, while this survey showed a negative tendency in employment during last three months. The number of respondents who say they have decreased their employees is 47.86% more than those who say they have employed more people during last three months.

Construction and Trade employees have lost considerably more jobs (-53) compared to manufacturing (-48.5) and service (-37.9). Construction is the only sector that expects a negative employment indicator for coming six months.

D. Security Situation

The security condition has reportedly deteriorated in all regions. Kandahar, the only region that recorded a positive security indicator in this survey has also reported a less favorable security condition (19.78) compared to three months back (54.45).

Business managers in Kabul, Nangarhar and Balkh regions have reported that their security conditions were extremely deteriorated during last three months.



	Kabul	Balkh	Kandahar	Nangarhar	Herat
II-2014	1	-7	13	-22	0
IV-2014	-17	17	22	-16	-17
I-2015	-40.5	33.33	54.45	38.88	-5.55
II-2015	-54.5	-29.22	19.78	-36.67	-37.78

E. Desired Improvements for Business Development

The evaluation of major business constraints shows that the most important factor for business development is considered to be 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 in last four surveys and for the first time it is ranked as more urgent than infrastructural developments.

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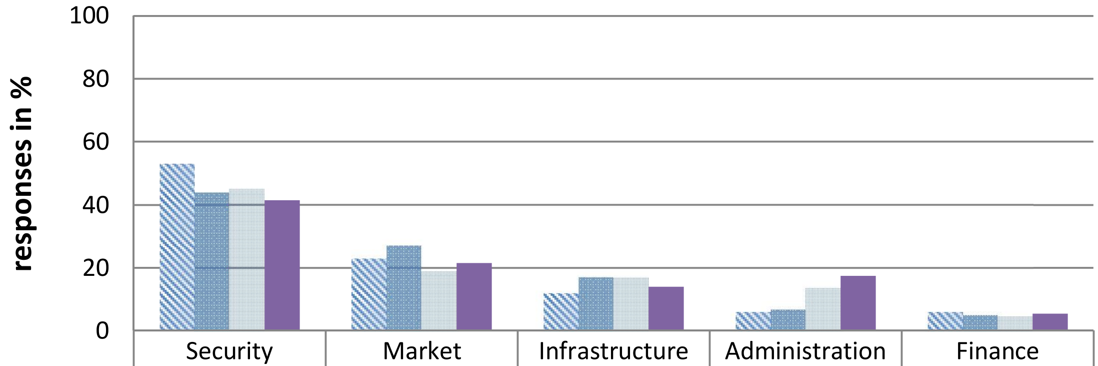
Graph 9: Desired improvements for business development, overall, 2014 to 2015



	Security	Market	Infrastructure	Administration	Finance
II-2014	53	23	12	6	6
IV-2014	44	27	17	7	5
I-2015	45.18	19.11	17.14	13.75	4.82
II-2015	41.43	21.61	13.93	17.5	5.54

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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