



# ACCI Business Tendency Survey Report

March 2017

1<sup>st</sup> Quarter

With the cooperation of GIZ



## **ACCI Business Tendency Survey Report<sup>1</sup>**

### **Major findings**

- In general, surveyed businesses' level of confidence regarding their current condition has not changed meaningfully, but their expectations regarding the coming six months have increased.
- Regional differences are considerable. Nangarhar and Herat regions have positive; while Kabul, Kandahar and Balkh have negative business climate indicators.
- Agriculture is the only sector with positive business climate indicator in this survey.
- Businesses have reported a decrease in their order books compared to previous survey, but they are in a better position compared to the same season in 2016.
- Security, administrative reforms, market and demand are major desired improvements for business developments.
- Companies across the sectors have fired more people than those that they have hired during last three months, but in general they are optimistic about the trend in coming six months.

### **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.

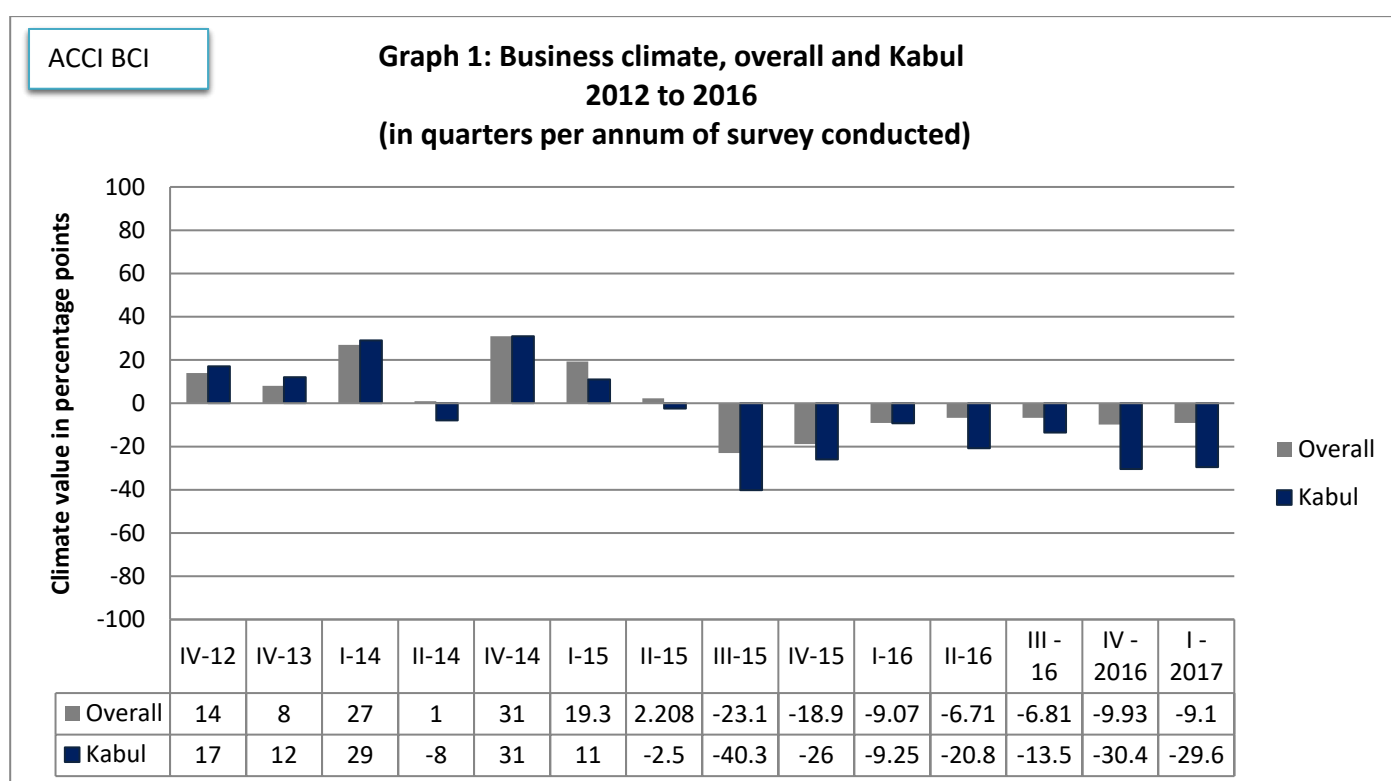
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<sup>1</sup> The Business Tendency Survey asks the managing directors of businesses for their opinions on the current business situation and their expectations for the next six months. The current survey was conducted in five regions (Kabul, Balkh, Kandahar, Herat and Nangarhar) and 705 companies were interviewed through phone during first and second week of March 2017.

## A.1- Business Climate overall and by Region

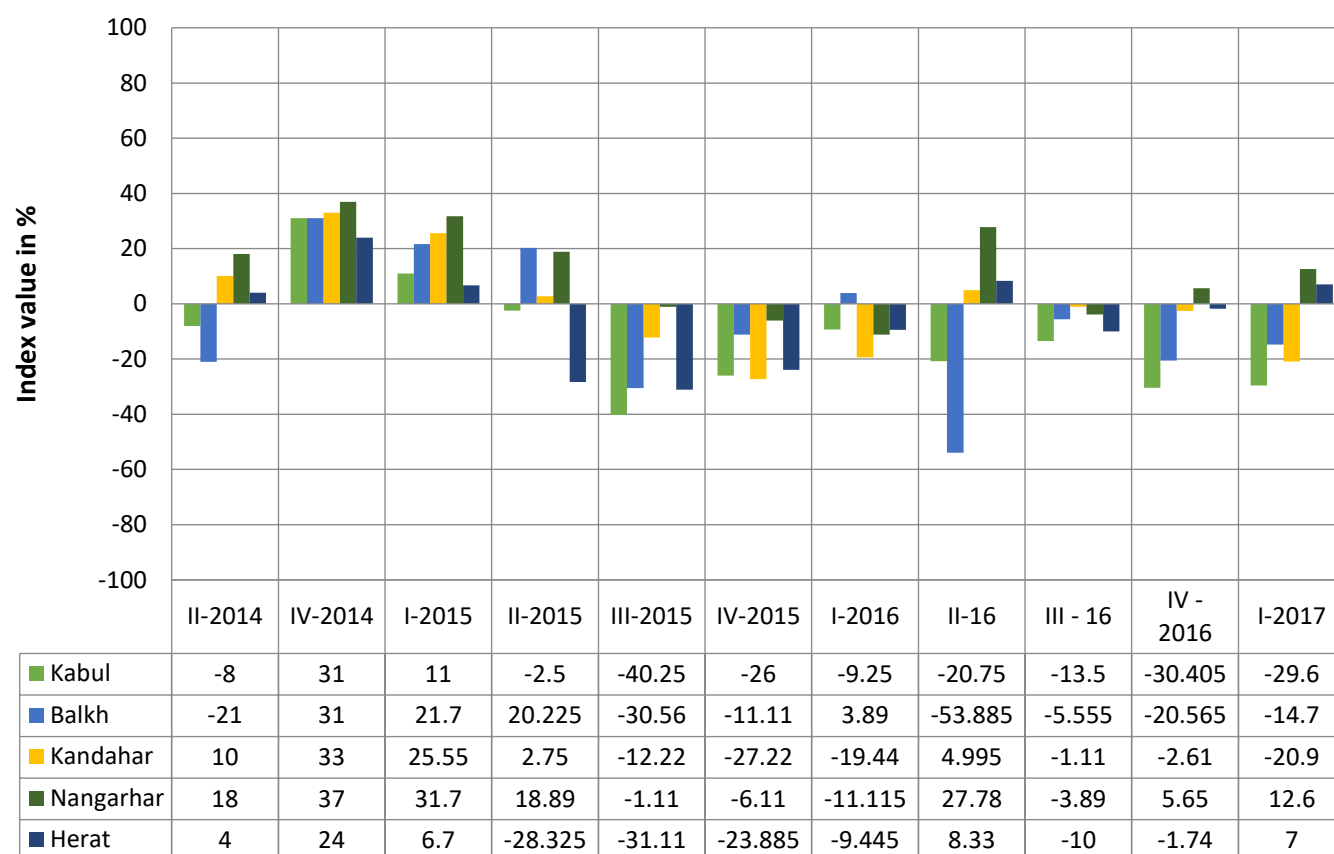
The overall Business Climate indicator in March 2017 for Kabul, Balkh, Kandahar, Nangarhar & Herat regions altogether valued (-9.1) points while in last survey it was (-9.9) points.

The overall condition has not changed significantly compared to previous survey; and in general surveyed businesses' level of confidence regarding their current condition has worsened (-26.2→ -37.5) while their expectations regarding the coming six months (-1.13→11.6) have increased. As usual, surveyed businesses maintain their optimism as far as their business plans and prospects are concerned, but they are not contented with what they have achieved during last three months.



The business climate has improved in Nangarhar and Herat, and both regions enjoy positive climate indicators. Balkh has also shown a considerable improvement, but it is still far behind. Like last survey, Kabul sets at the lowest point followed by Kandahar with the later showing a sharp deterioration of business conditions.

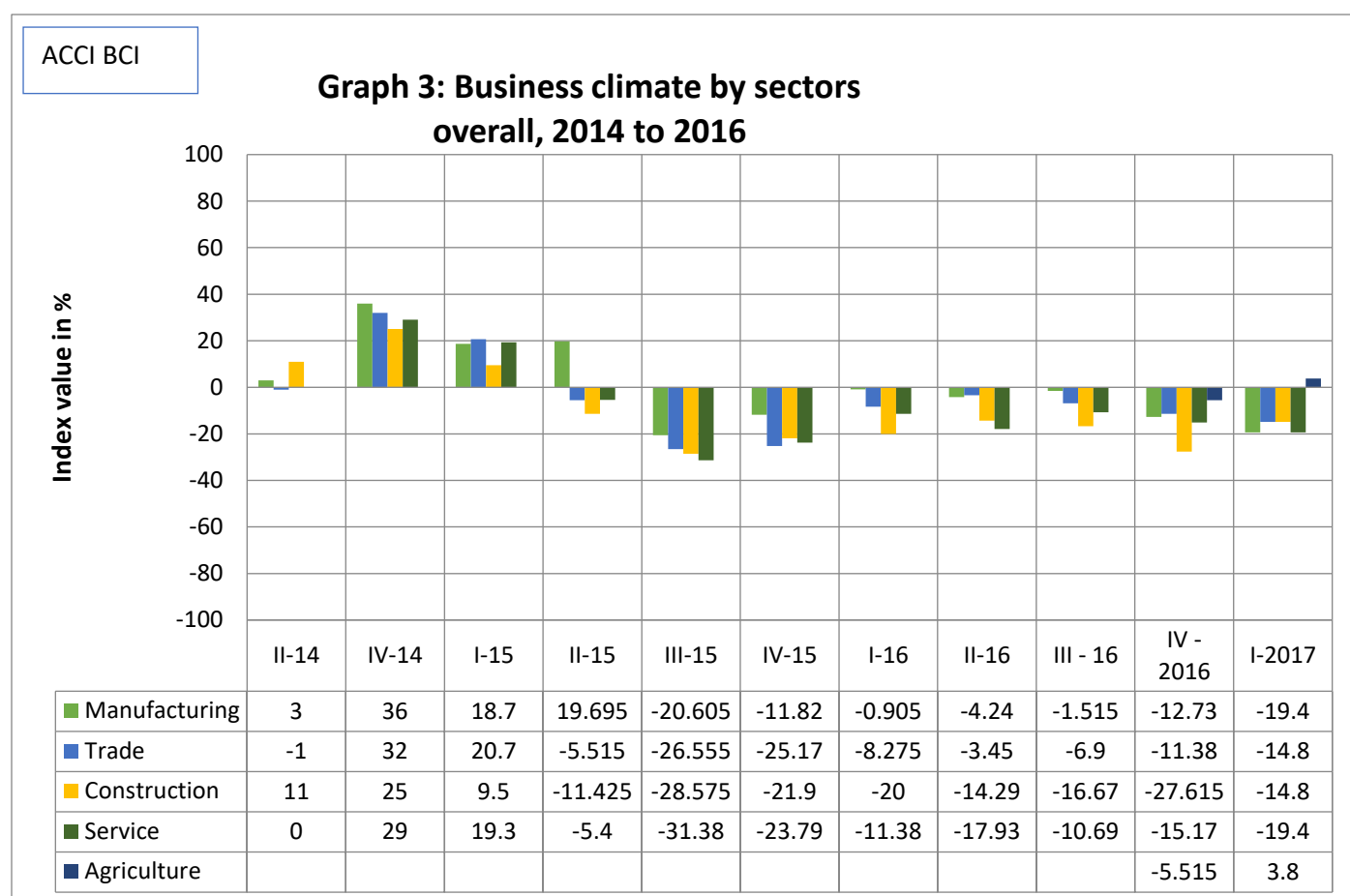
**Graph 2: Business climate by Province**  
**2014 to 2016**



## A.2- Business Climate by Sectors

Manufacturing (-19.4) and trade (-14) sectors, have reported that their businesses have deteriorated as they did in the last survey. Services have also shown deteriorated business conditions (-19.4), but construction companies have reported an improvement (-27.6→-14.8) compared to last time.

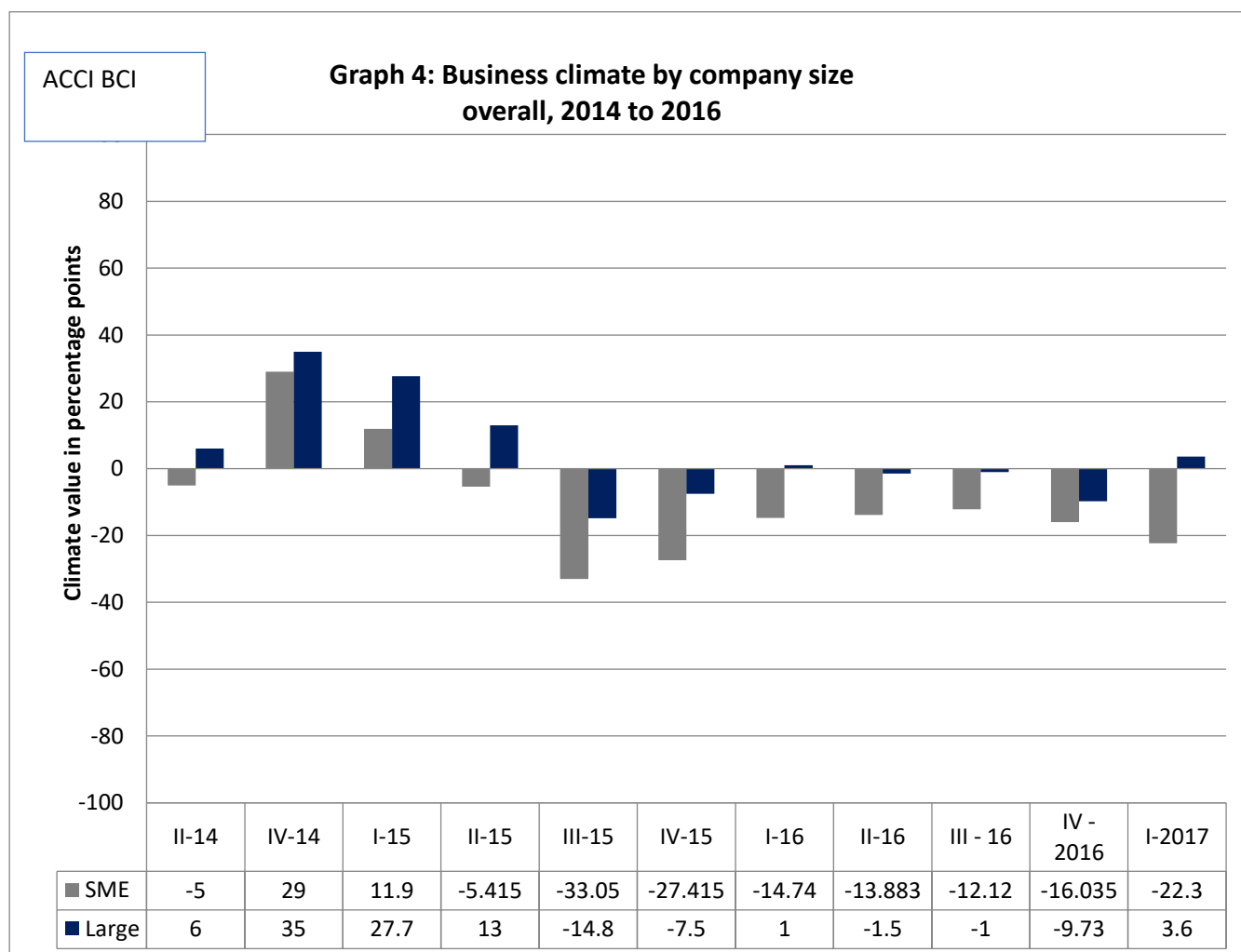
Agriculture, which was added to the survey in last quarter of 2016, is the only sector with a positive business climate indicator (3.8).



### A.3- Business Climate by Company Size

The Business Climate survey shows that there is a meaningful difference between the perception of large companies and SMEs about the business condition. SME's business climate has worsened compared to last survey and the survey of the same last season. In contrast, large companies have reported a positive business climate indicator, which is higher than the same season of last year and thereafter.

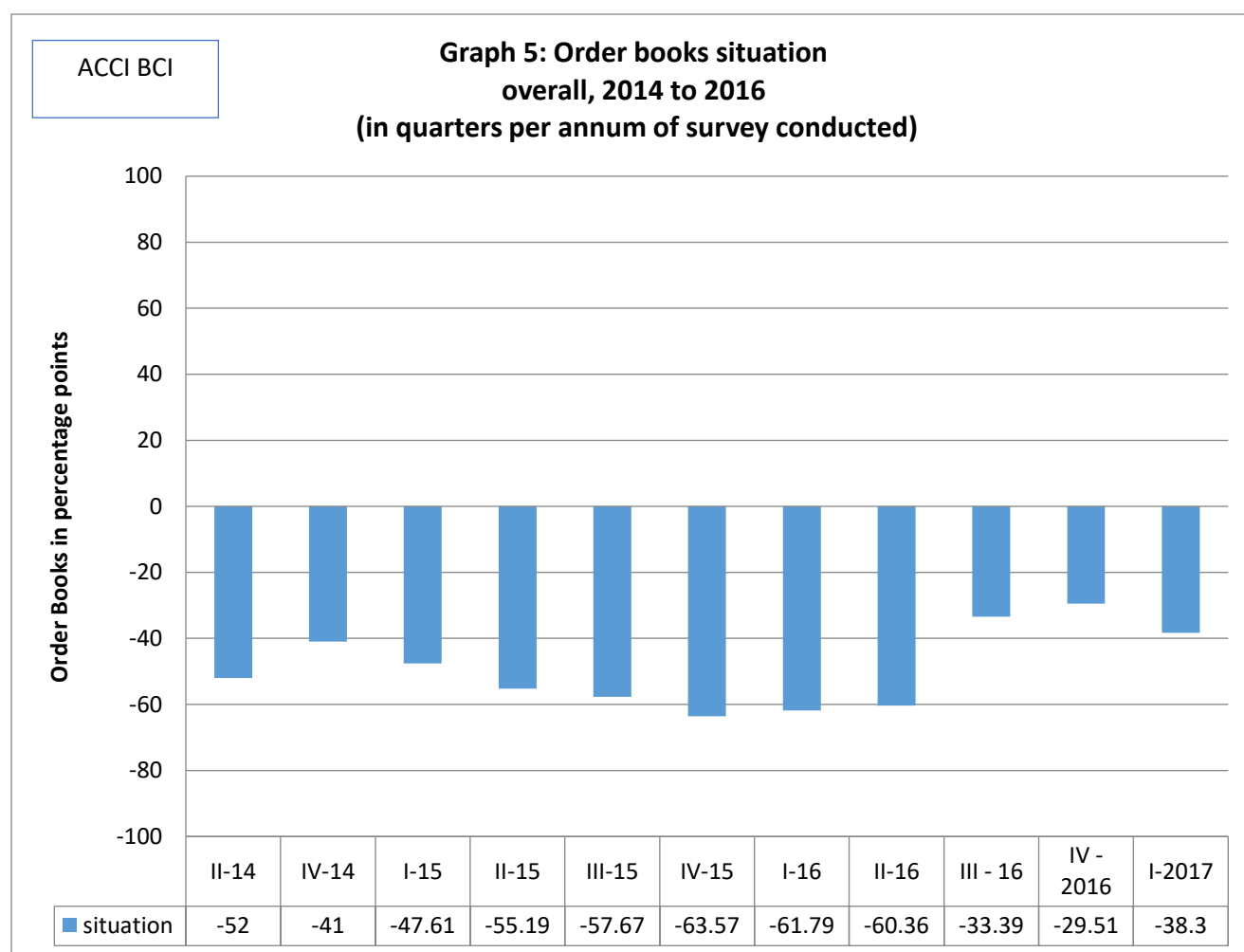
Meanwhile larger companies are more optimistic about coming six months (26.3) compared to SME (3.2).



## B. Order Books

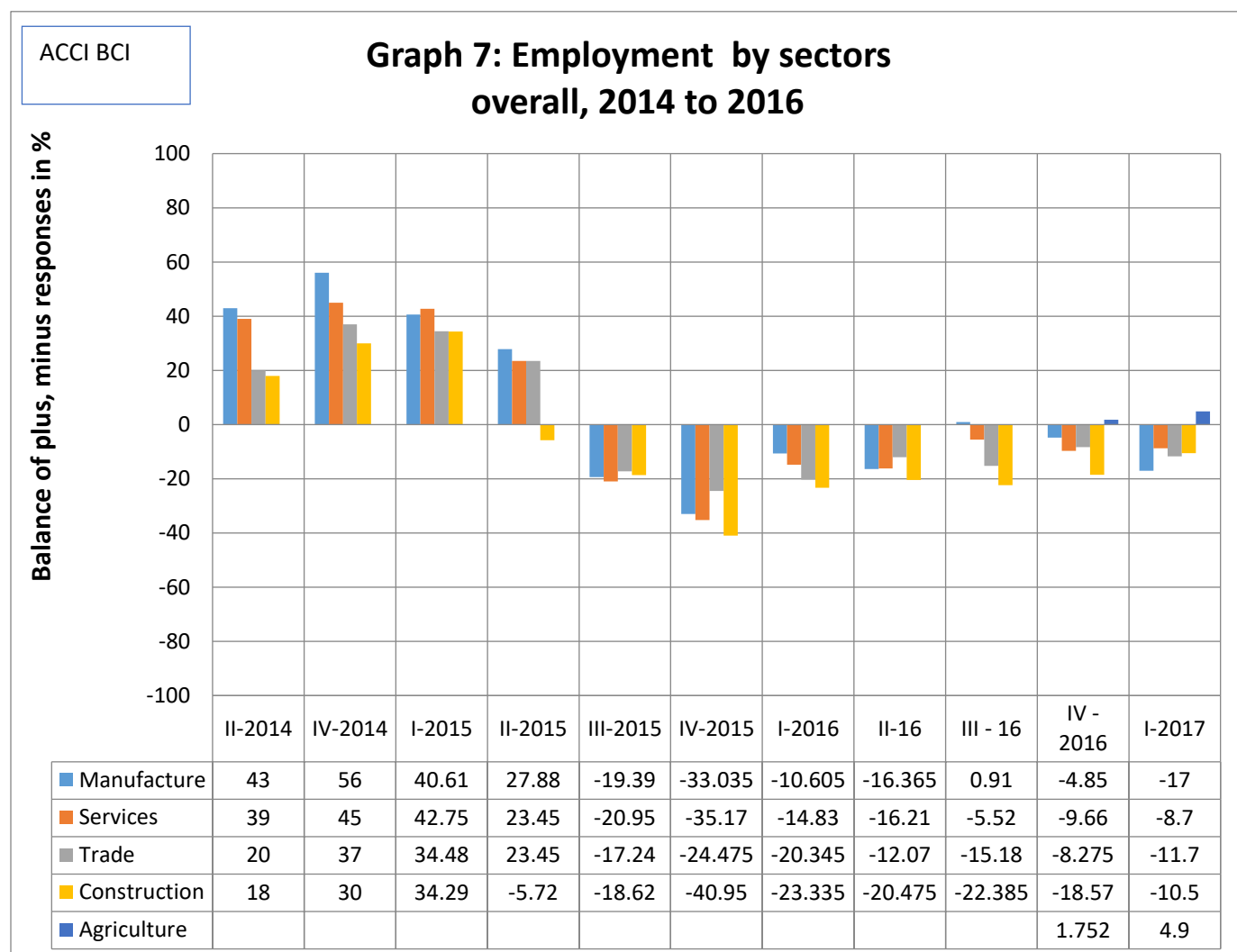
The order books situation is another indicator for the business situation. It is complementary to the Business Climate and can be used as a control for the climate tendency. The result figures are based on percentage balance values (positive minus negative answers).

Businesses have reported that the situation have worsened for their order books compared to the previous survey. Nangarhar is the only province with a positive order books' indicator (6.1) while Kabul has the lowest indicator (-64).



## C. Employment Expectation

According to this survey companies are optimistic about their employment prospects (11.6), and manufacture expect the highest rate of employment (29) and trade the lowest (3.5).



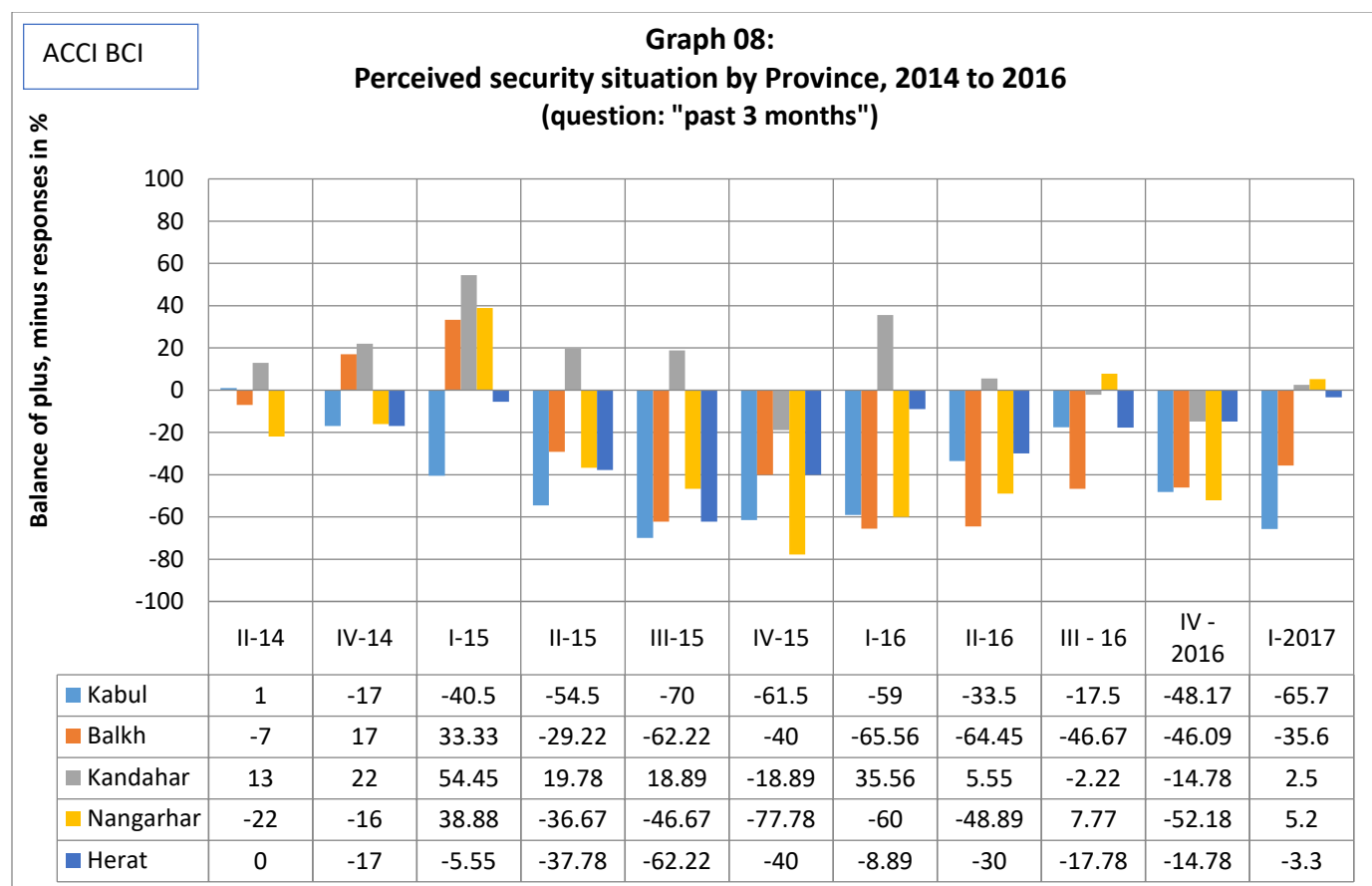
It is worth mentioning that the real employment situation was different to what the businesses expected in previous survey. In November 2016, the surveyed companies expected about -1.13 points increase in their employments for the then coming three months, while this survey showed a more negative tendency in employment during last three months. The number of respondents who say they have decreased their employees is -29.1 percent more than those who say they have employed more people during last three months.

Construction (-35.2), Service (-22.7) and trade (-26.8) employees have lost more jobs compared to Manufacturing (-41.2). Agriculture has also a negative employment indicator (-19.3).

## D. Security Situation

The average indicator for security situation has slightly decreased (-26.2) in last three months, but regional contrast is high.

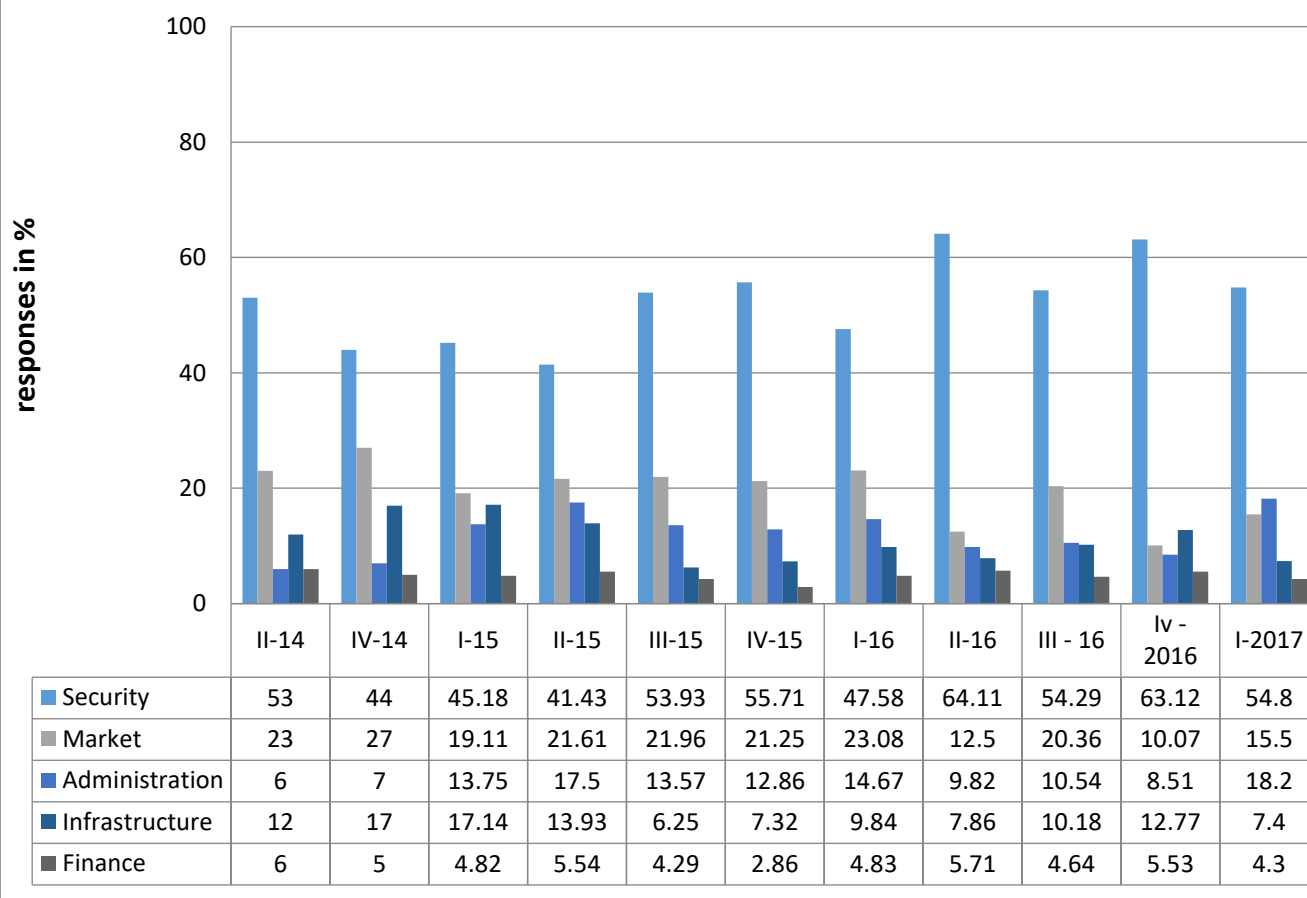
Nangarhar (5.2) and Kandahar (2.5) reported positive security situation indicator. Herat has also reported an improvement (-5.3) compared to last survey (-12.2), but businesses in Kabul (-65.7) and Balkh (-35.6) believe that they suffer from a highly insecure business environment.



## 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 administrative reforms, market and demand, better infrastructure, and access to finance.

ACCI BCI **Graph 9: Desired improvements for business development, overall, 2014 to 2016**



## **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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